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Finance Officials Are Confident Pact Will Support Dollar

Compiled by Our Staff From Dispatches

WASHINGTON — Finance officials of leading industrialized nations voiced confidence Sunday that the U.S. dollar would remain steady after they reaffirmed an agreement to support the currency at current levels.

The vice chairman of the U.S. Federal Reserve Board, Manuel Johnson, said that the foreign exchange markets should react to the currency accord "in a positive way." Finance Minister Kiichi Miyazawa of Japan and Karl Otto Pöhl, the governor of the West German central bank, agreed.

Brazil is asking for $10.4 billion in loans. Page 17.

"I am sure they will react very favorably," Mr. Miyazawa said as he emerged from a session of the Interim Committee, the key policy-making body of the International Monetary Fund.

Officials have gathered in Washington for this week's joint annual meeting of the IMF and the World Bank. The Interim Committee met Sunday to discuss the IMF's latest economic outlook, which forecast moderate growth in the world economy this year and next. (Details of the report, Page 17.)

Asked whether central banks were likely to intervene Monday on the foreign exchanges, Vice Finance Minister Toyoo Gyohten said that the Japanese central bank "was always ready to intervene, but I don't think it will be necessary this time."

The accord, reaffirmed at a meeting here Saturday by the Group of Seven leading industrialized nations, is intended to dissuade speculation against the dollar on the often-turbulent markets. The nations implied that they would back up their agreement by buying large amounts of dollars should speculation begin.

An agreement in February to stabilize the dollar, known as the Louvre accord, has proven largely successful. After a yearlong decline in the dollar that was encouraged by the Reagan administration, the nations established "reference zones" within which they are willing to allow the exchange rates of their currencies to move.

Financial analysts believe that the current dollar ranges supported by the seven nations are 1.80 to 1.90 Deutsche marks and 140 to 150 yen.

Finance Minister Gerhard Stoltenberg of West Germany said that the Group of Seven had not decided how long it would seek to maintain the dollar's levels.

The countries — Britain, Canada, France, Italy, Japan, West Germany and the United States — want to keep the markets uncertain, he said.

The Group of Seven agreed that the dollar's steep fall since 1985, coupled with other economic reforms, had cleared the way for a sustained reduction in trade imbalances, such as the bulging U.S. trade deficit.

Sir Nigel Lawson, the British chancellor of the Exchequer, told the IMF Interim Committee on Sunday that the process of reducing imbalances required a reversal of the differences between domestic demand and output in the United States, Japan and West Germany.

"This is bound to take time to complete, but it has now begun," he said. "It would be serious mis-

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Agence France-Presse

Crew members of the Iran Ajr, the vessel attacked by U.S. helicopters in the Gulf, being welcomed in Tehran on Sunday.

Weinberger Sees No Need to Use War Powers Act

By Molly Moore
Washington Post Service

WASHINGTON — Defense Secretary Caspar W. Weinberger on Sunday said hostilities in the Gulf would need to grow "a great deal more than what is occurring now" to meet the requirements for the War Powers Resolution giving Congress a role in U.S. military activities in the region.

Mr. Weinberger, who was scheduled to return to Washington on Monday after a five-day trip to the Middle East, also described as the "height of absurdity" proposed legislation that would require congressional approval to continue the Reagan administration's tanker-escort operation in the Gulf.

Democratic leaders in the Senate have proposed an amendment to the military authorization bill for 1988 that would impose many requirements of the War Powers Resolution of 1973 without formally invoking the law.

"What we're talking about now is an amendment," Mr. Weinberger said, "that would provide that we must keep a strong presence in the Gulf, but we can't do anything."

Speaking from Bahrain in an interview on a U.S. television program, Mr. Weinberger went on: "We have to unflag the ships that have been flagged according to proper American legal procedures, and we're not allowed to convoy. So what in the world would we do? It is, I think, the height of absurdity."

President Ronald Reagan, charging that the congressional proposal could have "disastrous effects" on U.S. commitments in the Gulf, said he would veto a plan requiring congressional approval for continuing the escort operation for more than 90 days after enactment of the legislation.

Senator John Glenn, Democrat of Ohio, a member of the Armed Services Committee who was also interviewed on the program, said the situation in the Gulf bordered on war.

"If there ever was a situation that called for reporting" under the War Powers Resolution, he said, "this is it."

Mr. Weinberger said he believed passage by the United Nations of an arms embargo that "would be genuinely enforced" could help bring an end to the war.

"Short of that," he said, "we will need a totally different kind of government in Iran. No one can deal with the irrational, fanatical government they have now."

■ Iraq Hits 4 Iranian Vessels

John Kifner of The New York Times reported from Manama, Bahrain.

Iraqi warplanes made a flurry of bombing runs over Iranian oil tankers during the weekend. By midday Sunday, Iraq had struck four Iranian oil tankers within 36 hours in one of the heaviest bursts of air raids in the Gulf war, now seven years old.

In Iran, meanwhile, the 26 sailors of the Iran Ajr were welcomed home. They were captured, the U.S. Navy says, while laying mines in the Gulf, but the Iranians complained that they were mistreated innocents.

The Tehran radio, broadcasting in Arabic and monitored in Manama, quoted the crewmen as telling of "savage imprisonment" below decks on a U.S. warship.

The 26 Iranians were picked up from the water after a raid on their vessel by U.S. Army Special Operations helicopters. The released Iranians and the bodies of three others killed in the attack were turned over to Iranian officials in Oman on Saturday and flown back to Tehran.

U.S. officials have said the Iranian captain and other crewmen cooperated with the U.S. naval task force protecting Kuwaiti oil shipping in the Gulf in locating the mines they had planted.

U.S. officials also said that at least two of the crewmen had asked for political asylum but that the whole group was sent back to avoid any possible charges that the United States was taking hostages.

The Tehran radio quoted another unidentified crewman as saying that "the Americans treated us as if they had just won a war."

"They suggested we request political asylum," he said. "They

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Bonn's EMS Partners Seek Larger Economic Say-So

By Reginald Dale
International Herald Tribune

PARIS — The coming weeks and months should see the first real test of whether West Germany will continue to dominate European economic policymaking through its leadership of the European Community's eight-nation currency bloc.

France and other members are becoming increasingly restive under West German control of the European Monetary System, which senior French officials now wryly — sometimes bitterly — call "the mark zone."

Recent debate over the future of the system, leading to largely French-inspired reforms earlier this month, has concentrated on the nuts and bolts of currency intervention and on economic and monetary targeting.

As is often the case in the European Community, however, the technical jargon masks deep-seated tensions between member states' economic and political interests in which fundamental principles of national sovereignty are at stake.

These tensions can only grow in the period ahead if, as many community officials expect, the other countries' perceptions of their interests increasingly diverge from those of West Germany.

Last week, Jean-Pierre Chevènement, a leader of the left wing of the French Socialist Party and a presidential aspirant, went public with France's anxieties.

France cannot accept that its growth be perpetually limited to that of West Germany, he said in an interview with the newspaper Le Monde. If West Germany does not invest more in European growth in the future, he warned, France, at least temporarily, must act more independently.

"We cannot accept forever that the EMS be no more than the camouflage of a mark zone," Mr. Chevènement said.

The French government makes no secret of its wish that Britain should now enter the system as soon as possible as a counterweight to West Germany.

French officials believe that the latest changes have gone some way toward prising loose the iron grip of West Germany's fiercely independent Bundesbank, or central bank, which as the guardian of Europe's strongest currency has hitherto acted as both the disciplinarian and the paymaster of the system.

In moments of weakness, the other seven participants — France, Italy, the Netherlands, Belgium, Denmark, Ireland and Luxembourg — rely heavily on the Bundesbank to help keep their currencies within the tight, jointly floating exchange rate band that is the linchpin of the system.

Of the EC's 12 members, only Britain, Spain, Greece and Portugal are outside this so-called exchange rate mechanism.

The dilemma facing the non-German members of the system is this: If they want to hold their currencies within the agreed limits, keeping up with the stiff pace set by the Deutsche mark, they must follow the sort of austere, German-

See EMS, Page 21

U.S. Attack on Ship: A Lift for Arabs

But Envoys Say Caution of Gulf Nations Won't Change

By Patrick E. Tyler
Washington Post Service

MANAMA, Bahrain — The American helicopter attack on an Iranian mine-laying vessel has bolstered the confidence of Arab nations already working closely with Washington, but is less likely to change the cautious diplomatic attitudes of Arab leaders whose populations and national fortunes live within missile range of their large and bellicose neighbor.

NEWS ANALYSIS

According to a sampling of Arab and Western diplomats in the region, the U.S. strike last week on the Iran Ajr was universally cheered in private by Arab leaders. Many were skeptical of Iran's peace-making intentions even as the Iranian president traveled to New York to address the opening session of the United Nations General Assembly.

But although the United States and Western maritime powers enjoy widespread private support for their deployment of a 70-ship naval flotilla to protect shipping in the Gulf, there is no consensus for an open break with Iran or a unified military stand on the Arab side of the waterway, officials said.

"We are waiting for one more attack by the Americans, if you can do it," said a Bahraini official, who added that the attack showed "that no one can face America in this region."

But another government official in Bahrain said U.S. policy makers in Washington had demonstrated a fundamental lack of understanding of the revolutionary character of the Iranian regime and the inability of its religious leaders to compromise revolutionary objectives that have been articulated by Iran's spiritual leader, Ayatollah Ruhollah Khomeini.

"These people do not think as you do in the West," this official said, referring to Tehran. "And I'm afraid that won't change even after Khomeini is gone."

But most officials emphasized the positive impact of the attack in deterring military aggression by Iran against the smaller and militarily weaker Arab nations.

"The fact that there was somebody laying mines was a very definite threat," said Bahrain's

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Kiosk

Killing Roils Israeli Cabinet

JERUSALEM (NYT) — Israeli cabinet ministers exchanged harsh words Sunday as they discussed how to respond to the killing of an Israeli soldier who was stabbed to death by a Palestinian last Thursday as he waited for a ride in northern Israel.

Ariel Sharon, the hard-line Likud minister and former general, called for harsher responses and decried what he termed government "apathy" about guerrilla attacks, prompting Labor party ministers to accuse him of incitement and tell him bluntly to "close your mouth."

MONDAY Q&A

Peter Corterier, a West German who is secretary-general of the North Atlantic Assembly, gives a cautious welcome to the U.S.-Soviet arms agreement. Page 2.

GENERAL NEWS

■ General Wojciech Jaruzelski rebuffed appeals from Vice President George Bush. Page 6.

■ The Count of Paris held a castle party to consecrate his grandson as his heir. Page 6.

SPORTS

■ Europe beat the United States, 15-13, to retain golf's Ryder Cup. Page 23.

BUSINESS/FINANCE

■ Pearson, the U.K. conglomerate, increasingly looks like a target for a takeover. Page 17.

Special Today

Caution rather than expansion is the catchword for world banks as the bull market of the past five years appears to be over. A special report, Pages 7-16.

U.S. Officials Divided Over Proposal By Soviet to Negotiate Space Defense

Michael R. Gordon
New York Times Service

WASHINGTON — Senior Reagan administration officials, preparing for the next round of high-level arms talks in Moscow, are sharply divided over whether to negotiate with the Soviets over the scope of testing a missile-defense system in space.

The Soviet Union first proposed in April that experts from the two sides negotiate the issue. The proposal was made during a visit to Moscow by Secretary of State George P. Shultz.

Last week, Soviet officials elaborated on the idea and gave the United States a list of proposed limits on the capabilities of objects that could be tested in space for a missile-defense system.

Included were limits on the brightness, or power, of lasers, the speed of interceptors and the size of mirrors that might reflect some laser beams, among other limits.

Paul H. Nitze, the arms control adviser to Mr. Shultz, is urging that the United States agree to such talks, officials said.

Mr. Nitze has publicly argued that the talks are needed to clear the way for an accord to reduce the number of long-range nuclear weapons and set further limits on defensive systems.

But some Defense Department and administration officials strongly oppose such negotiations. They assert that the talks might be a "slippery slope" leading to unacceptable and unverifiable limits on President Ronald Reagan's Strategic Defense Initiative, commonly known as "star wars."

Administration officials said they expected the dispute to heat up as preparations continue for Mr. Shultz's trip to Moscow in October.

That visit is to serve as a prelude to a summit meeting, expected to take place in the United States later this year, at which the two sides plan to sign an agreement eliminating medium-range and shorter-range missiles.

U.S. experts who have examined the Soviet list of proposed limits describe it as a "crude start," as one put it, toward what might be necessary to define useful limits on testing in space.

One U.S. official said that the

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U.S. Agencies at Odds Over Purchase of Soviet Space Photos

By William J. Broad
New York Times Service

NEW YORK — An agency of the federal government is seeking to buy close-up photographs of the Earth taken by Soviet space satellites, a proposal that is likely to stir controversy.

The Soviet Union recently has begun to sell space photographs that are superior to any in the West as part of an effort to market space-related goods and services.

The photos are being sought by the U.S. Geological Survey, an arm of the Interior Department that makes and sells maps and monitors the U.S. land mass for earthquakes, volcanoes, water pollution and other aspects of geology and hydrology.

An official at the agency's headquarters in Reston, Virginia, speaking on the condition of anonymity, said that scientists there were "going ape" over sample Soviet photos and were eager to be able to order them and use them routinely.

The proposed purchase of these photos conflicts with Reagan administration attempts to keep the Soviet Union from making inroads into Western space markets. It also is likely to anger the Defense Department, which believes civilian space photos in general, and especially Soviet photos, are increasingly and wrongfully being used in ways once monopolized by military spacecraft for purposes of space-based reconnaissance.

The Pentagon, worried that high-powered civilian satellites will threaten national security, has promoted efforts to limit and control the development of such systems.

It also is potentially embarrassing to the administration because the U.S. system for taking satellite photos, Landsat, is in danger of failing for lack of government financial support.

"It shows how our once dominant place in space has eroded," said Dr. Peter D. Zimmerman, a senior associate at the Carnegie Endowment for International Peace in Washington, D.C. He said "it's a sign of the times" that a U.S. agency wants to "buy things from the Soviets that we should be able to provide ourselves."

The Soviet photographs have an intrinsic ability to resolve, or see, objects on the Earth as small as five and a half yards (five meters) long. In contrast, the world's next best civilian satellite, the French SPOT satellite, can resolve objects down to 10 yards. The civilian-operated Landsat has a resolution no better than about 30 yards.

The Soviet space photo program is larger than any in the West and draws on at least three classes of spacecraft: low-altitude satellites that return their film to the Earth, manned space stations that also return their film, and high-altitude satellites that electronically beam their pictures to the Earth. The photos cost $500 to $800, and more for enhanced processing by computer.

Book Lifts Corner of Veil on William Casey's CIA

By Haynes Johnson
Washington Post Service

WASHINGTON — While he was director of central intelligence, William J. Casey circumvented normal CIA channels and personally arranged for the Saudi Arabian intelligence service to undertake three covert operations, including a Middle East assassination attempt that went awry, killing 80 people when a car bomb exploded in a Beirut suburb on March 8, 1985, according to a book by Bob Woodward, an assistant managing editor of The Washington Post.

Casey emerges as a complex figure: a student of history, an ardent anti-communist, who 'showed a hundred different faces to a hundred different worlds.'

The book says the other operations Mr. Casey arranged through King Fahd of Saudi Arabia and his ambassador to the United States, Prince Bandar bin Sultan, were actions to help Chad oppose invasion by Libya and to frustrate the electoral ambitions of the Italian Communist Party in May 1985.

The Saudis put up $15 million to finance these three "off-the-books" actions, the Woodward book says.

The assassination attempt was aimed at Sheikh Mohammed Hussein Fadlallah, who is believed to be the leader of the Shiite Moslem faction in Lebanon known as Hezbollah, or Party of God. Sheikh Fadlallah was believed by U.S. and Saudi intelligence to be connected with three bombings of U.S. facilities in Beirut, Mr. Woodward writes in "VEIL: The Secret Wars of the CIA, 1981-1987."

"Veil" was a code name for the covert action "compartment" in the Reagan administration.

When the assassination attempt went awry, the Saudis, with Mr. Casey's blessing, bribed Sheikh Fadlallah with $2 million in food, university scholarships for his followers and other goods to persuade him to stop car bombings of Western targets in Beirut, according to the book.

Mr. Casey was "astounded" that "such a comparatively small amount of money could solve so giant a problem," Mr. Woodward reports.

Mr. Casey's secret arrangement with the Saudis grew out of his desire to create a pre-emptive anti-terrorist capability for the United States. At first he sought to do this inside the Central Intelligence Agency, but his deputy at the time, John N. McMahon, a career CIA employee, opposed the idea, arguing that it brought the agency too close to assassination, which President Ronald Reagan by executive order had expressly banned, Mr. Woodward reports.

The CIA came under intense congressional criticism in the mid-1970s for covert activities including several assassination plots.

According to Mr. Woodward, Mr. Casey took the CIA directorship in 1981 after he was passed over for secretary of state and secretary of defense, but quickly realized he could accomplish his foreign policy goals as director of central intelligence, with overall responsibility for all U.S. intelligence agencies.

In Beirut, Sheikh Fadlallah said Sunday that the report that he had accepted a bribe from Saudi Arabia was "a cheap intelligence service intrigue." His information office described the claims in Mr. Woodward's book as fabrications aimed at "slandering the purity and integrity of his eminence's struggle."

The William Casey that emerges from the book is a complex figure. Part buccaneer, part loyal friend, part student of history, part ardent anti-communist, Mr. Casey was a "common man with uncommon wealth" and someone who "showed a hundred different faces to a hundred different worlds," Mr. Woodward writes.

The book does not resolve many of the questions about Mr. Casey's role in the Iran-contra affair. Nor does it add any information on Mr. Reagan's involvement. It includes many revelations that help establish a context for the story of secret endeavors that unfolded after Mr. Casey died of cancer and pneumonia May 6.

The three covert actions undertaken by the Saudis at Mr. Casey's behest appear to exemplify the "off-the-shelf, self-sustaining, stand-alone" capability to conduct secret operations that Mr. Casey discussed with Lieutenant Colonel Oliver L. North, according to the former National Security Council aide's testimony this summer in the congressional Iran-contra hearings.

In 1985, Mr. Woodward and a staff writer, Charles R. Babcock, wrote an article in The Post that described the attempt to assassinate Sheikh Fadlallah as a "runaway mission" that grew out of a CIA operation to train Lebanese units to conduct "pre-emptive strikes" against terrorists. The writers did not know then about the Saudi role.

Although Mr. Casey had a reputation for being secretive, Mr. Woodward discloses that he had more than four dozen interviews

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Ken Heinen/The Associated Press

William J. Casey, less than a year before his death.

Double-Zero Agreement: One European's Cautious Welcome

The security outlook for Western Europe, as the North Atlantic Treaty Organization and the Warsaw Pact move to eliminate intermediate-range nuclear arms, was in the forefront of discussion last week in Oslo at the annual meeting of the North Atlantic Assembly, a body grouping 200 members of parliament from all 16 NATO nations. Peter Corterier, secretary-general of the NAA and a former West German Social Democratic member of parliament and minister of state in the Foreign Ministry, spoke to the IHT's political correspondent, Joseph Fitchett, about European concerns:

Q. What is the main impact on Europeans of the proposed U.S.-Soviet plan to remove intermediate and shorter-range nuclear arms on both sides?

A. The Western alliance has lost some flexibility in its means and options to carry out our strategy of stopping and therefore deterring Soviet aggression in Europe. But for European leaders the military drawbacks are outweighed by the political advantages — momentum for more far-reaching arms control agreements. What concerns some of us is the dynamic, a risk that we could lose control of that process and find it exploited against our security interests.

Q. What is your main present concern in the aftermath of the double-zero agreement?

A. The process must not be allowed to get out of hand, taking Europe toward a triple zero, meaning the elimination of all nuclear arms. That would amount almost to denuclearizing Europe and leaving us faced with the overwhelming advantage in conventional forces that the Soviet Union has had since the end of the war.

MONDAY Q&A

Q. What do you expect to happen next?

A. Soviet leaders, for the first time, have started admitting that there are disparities in East-West troop strength in Europe, in other words, acknowledging their superiority instead of insisting that the two sides' forces are equal, so they might be open to the idea of asymmetrical cuts. This is encouraging for the West since we want conventional reductions. But the Soviet priority is nuclear disarmament. So they might link offers of conventional cuts to reductions in the remaining U.S. nuclear systems in Europe — for example, such battlefield weapons as atomic artillery, or nuclear-armed fighters or other airborne systems.

Q. What should European leaders do?

A. We have to make it clear to the Soviets and to our own public opinion that they have to withdraw many more troops than we do. At the same time, if they're looking for trade-offs, that's an encouraging new development. But we need to be imaginative in quickly formulating new disarmament ideas; and we have to remember that times have changed in the Soviet Union. We have a fast-moving partner there in Mr. Gorbachev, who can quickly exploit our mistakes. We have to be smarter.

Q. Wasn't there remarkably little trans-Atlantic lobbying between like-minded Americans and European politicians trying to support or undermine this accord?

A: Almost none at all compared to the intensive contacts — officials and parliamentarians, experts and journalists — during the debate over SALT-2. European opinion carried weight in that discussion and was used in Washington. But this time there is really much greater consensus, both in the United States and in Western Europe. But this is not nearly as controversial; there is lots of support for the agreement on both sides of the Atlantic. I don't expect it will heat up across the Atlantic during the Senate deliberations of any treaty they sign. Europeans do object to the Reagan administration's moves to broaden the interpretation of the anti-ballistic missile treaty to allow space-weapon experiments, because Europeans see any change in that treaty as liable to undermine the arms control process.

Q. Do you object to the contents of the planned treaty?

A. No, I think it's balanced — we eliminate a category of weapons on both sides. True, some experts and conservative politicians thought we should have started with other disarmament steps, for example tackling the enormous Soviet advantage in conventional forces. But this proposal — zero SS-20s and zero Pershings, then the double zero eliminating shorter-range intermediate systems — was the only one on the table. We had to work with it; now we have to master the momentum.

Q. Why did European leaders say so little publicly about possible risks with the way the talks developed?

A. Some leaders had reservations about the way in which the agreement took shape, especially going to double zero, so rapidly. But European leaders had agreed to the zero option when we deployed missiles in the early '80s; they had urged it on the Reagan administration and sold it to their own public opinions. To keep their credibility they had to be consistent. And a majority in Europe still feel the effects of the debate on deploying U.S. missiles and believe, rightly or wrongly, that getting rid of nuclear weapons is the overriding issue. Notice that the agreement is supported not only on the left but also by many right of center politicians in Britain and in my own country, West Germany.

Q. Can NATO deploy some new nuclear systems to plug gaps in our forces or have we in effect given the Soviet Union a veto power over any unilateral military modernization in our alliance in Europe?

A. That's a tough question. Clearly, after claiming credit for progress in disarmament, it's going to be hard for politicians to ask for more weapons, conventional or nuclear. Perhaps NATO could quietly restore some nuclear options — for example, by putting some extra cruise missiles on submarines under the orders of the NATO SACEUR [supreme allied commander Europe]. Since this change is low profile, it might not be too sensitive politically. If we don't see a continuing improvement in the Soviet negotiating stance, we might have to consider it. But, in any case, for the moment, the United States still considers all its other nuclear weapons, including these sea-launched cruises, as part of the U.S. reserve to be used only if the United States is attacked.

Q. Do the European parliamentarians you see consider the missile agreement as the thin end of the wedge toward loosened U.S. commitment to defending Europe?

A. No, not unless it is followed by U.S. troop withdrawals. U.S. troops in Europe matter much more than weapons systems as a sign of U.S. determination. But troop cuts now would be very bad.

Painfully, Young U.S. Jews Get to Know Germans

By Serge Schmemann
New York Times Service

BONN — Most of the American Jewish students had come to West Germany with trepidation. Some had been warned by their parents not to go, and others were afraid of their own reactions, but all felt that they had to see for themselves.

At the end, after two and a half weeks of living with West German families, meeting with students, politicians and German Jews and visiting sites associated with both the glory and the horror of German Jewish history, much of the fear had lifted, even if many of the questions remained.

At the goodbye party last week, the 16 Stanford University students on a pilot program to foster understanding between young Jews and Germans locked arms with their new friends, singing, hugging and sometimes weeping over the painful and often confusing contact with their shared legacy.

"Standing at Dachau, I was relieved that the wonderful things I had felt about these people did not vanish," said Karen Abrams, 19, a student from New York City, recalling the visit to the Nazi concentration camp near Munich now preserved as a monument to the Holocaust.

"But I wondered," she continued. "I did not come to Germany with a hatred, but I came with a lot of fear, a lot of fear about a society that had been so intellectual and could buy into something so sickening. A lot of it I had never thought about, like getting on a train and hearing the whistle blow and feeling the fear.

'I found myself feeling sorry for the German kids who have to live with this. In some ways we're lucky; we came out on the right side.'

— Karen Abrams, a student from New York City

"Yet I found myself feeling sorry for the German kids who have to live with this. In some ways we're lucky — we came out on the right side."

The visit was the idea of Hans-Adolf Jacobsen, head of the department of political science at the University of Bonn and a frequent visitor to the United States. In the United States, he got support from Hans Cohn, cantor at a synagogue in Palo Alto, California, and Rabbi Ari Cartun of Hillel House, the Jewish college students' organization, at Stanford University.

"The main idea was to distract the Jewish students from thinking about the past and immerse them in the present and to introduce them to Germany and the German democracy," Rabbi Cartun said.

"Some of the students were worried whether this was an attempt to use them to show that everything is great," he said. "But I don't think that has been the case. They will go back thinking about their host families. Three of them are already referring to their hosts as mother, father, brother or sister."

The apprehensions about coming were the subject of the group's first meeting in Bonn.

"My mother's side of the family is from Germany, and there was a lot of family hatred for Germans and the German language," said Dan Schechter, 20, of Chicago. "My grandmother was very disturbed when she heard that I wanted to go to Germany."

Edward Isser of New York City, a graduate student and at 29 the oldest member of the group, acknowledged a feeling of unease when he first saw older Germans. "When you see somebody 60 or 70 years old, you wonder, you just wonder," he said.

Amira Leifer, a 20-year-old American Studies major from Wyncote, Pennsylvania, had heard of the Holocaust all her life from her mother, a survivor of concentration camps in Czechoslovakia.

"I have a lot of anger, not at the German people, but at people who were too morally weak," she said. "When we first walked through the old part of Bonn and saw how close together the houses were, I thought there's no way they couldn't see people being carted away."

But Miss Leifer said her mother urged her to go, and when the impressions began flooding in, "I just wanted to call my mother and talk about it."

At first the students said they felt reluctant to air their questions and anxieties with the families they were staying with. But soon they found that many of these were shared to some degree by their hosts — that for many younger Germans, too, the Holocaust was a painful burden and a troubling question.

At a meeting with high school students at Bonn's Beethoven Gymnasium, the talk was about guilt, responsibility and trying to understand.

"My grandfather was afraid to speak about it," one young German said. "He didn't want to tell me, he said you didn't live then, so you don't need to know."

Another had had the opposite experience: "My grandfather never talked to my father about it, but he talks to me. He said he was just a soldier, that he did what he was told to, and if he had resisted there would have been consequences for the family. I don't know if it's true."

Most of the Americans seemed surprised at how much the Germans were taught about the Holocaust in school. The German students said they had studied it first in religion class in primary school, then again in history and social science classes, and many had visited the sites of concentration camps.

"Sometimes it was too much, and I felt I couldn't take it any more," Corinna Kopp, 18, said of the subject.

What did they know of Jewish life today?

"I don't know how to say it, it sounds so brutal, but we don't have many Jews," said Heike Koll, 18. "Many were killed, many live in America, and they don't want to come back, so we don't hear much from them."

Many of the Germans spoke of the burden they sensed. "I want to live my life and not have to think about it every time I go anywhere," said Miss Kopp's twin brother, Kai.

"It's not that I personally reject responsibility for something that happened even before my parents were born," he said. "But I can't even say I'm sorry from me to you. I can only say that what happened 40 years ago won't happen while I live. That's why it's important that everyone knows, that everyone talks about it."

At a worship service and dinner given by Bonn's 200-member Jewish congregation, Elliot Brandt, a 19-year-old Californian, said he was haunted by the thought that this was a city that had once had five flourishing synagogues.

Visiting Dachau, many in the group wept, and one of the young men, profoundly affected by the sight of the gas chambers, went out and started gashing his hands against a barbed-wire fence.

For the Germans, too, there were lessons. Beate Thewalt, a 26-year-old graduate student who helped Mr. Jacobsen organize the visit, said she was struck by how profoundly and personally the American Jews felt the Holocaust.

"For me, the same generation from the other side, for me it was always there, I always knew about it, but not as deeply as they," she said. "I thought it was that way for them. I had no idea how deep it was."

At the farewell party at his Bonn home, Mr. Jacobsen watched the dancing and hugging with some incredulity.

"I never believed it would work like this," he said. "I feel I should warn them that this is not the whole of Germany, that there are darker sides. So many of them came with fear, and now look at this."

Tunis Court Sentences 7 To Death

The Associated Press

TUNIS — A court on Sunday condemned to death seven Islamic fundamentalists who were among 90 charged with trying to overthrow the government of President Habib Bourguiba.

Two defendants were sentenced to life in prison, including Rachid Ghannouchi, head of the Islamic Tendency Movement, an opposition group that the government says has ties to Iran's Shiite Moslem regime. Most Tunisians are followers of the Sunni Moslem faith.

The court gave 67 defendants prison sentences ranging from a two-year suspended term to life. Fourteen were acquitted, including the youngest of the accused, a 16-year-old. The prosecutor had asked for death for all 90.

Five of the seven condemned to death were tried in absentia.

Mehrez Boudegga, one of the two who was present in the courtroom when he heard his death sentence, was convicted of making the bombs that exploded Aug. 2 at four Tunisian resorts that wounded a dozen European tourists.

The prisoners chanted "God is great!" as they filed out of the heavily guarded courtroom after the sentence was read in Arabic by the presiding judge, Hashemi Zemmal, at about 2:30 A.M.

Although Mr. Bourguiba could issue a pardon, there is no appeal procedure after the non-jury trial. A special court must rule within seven days on whether correct legal procedure was followed before executions by hanging can be carried out.

The prosecutor, Mohammed Zavani, had asked the state security court to impose the death sentence for all the defendants, saying they had conspired to overthrow the government. Mr. Bourguiba, 84, has led Tunisia, a pro-Western nation, since it gained independence from France in 1956.

A verdict had been expected more than a week ago, and political observers speculated that Tunisian leaders were having second thoughts about putting all the defendants to death.

■ Violence Is Threatened

Steven Greenhouse of The New York Times reported earlier from Tunis:

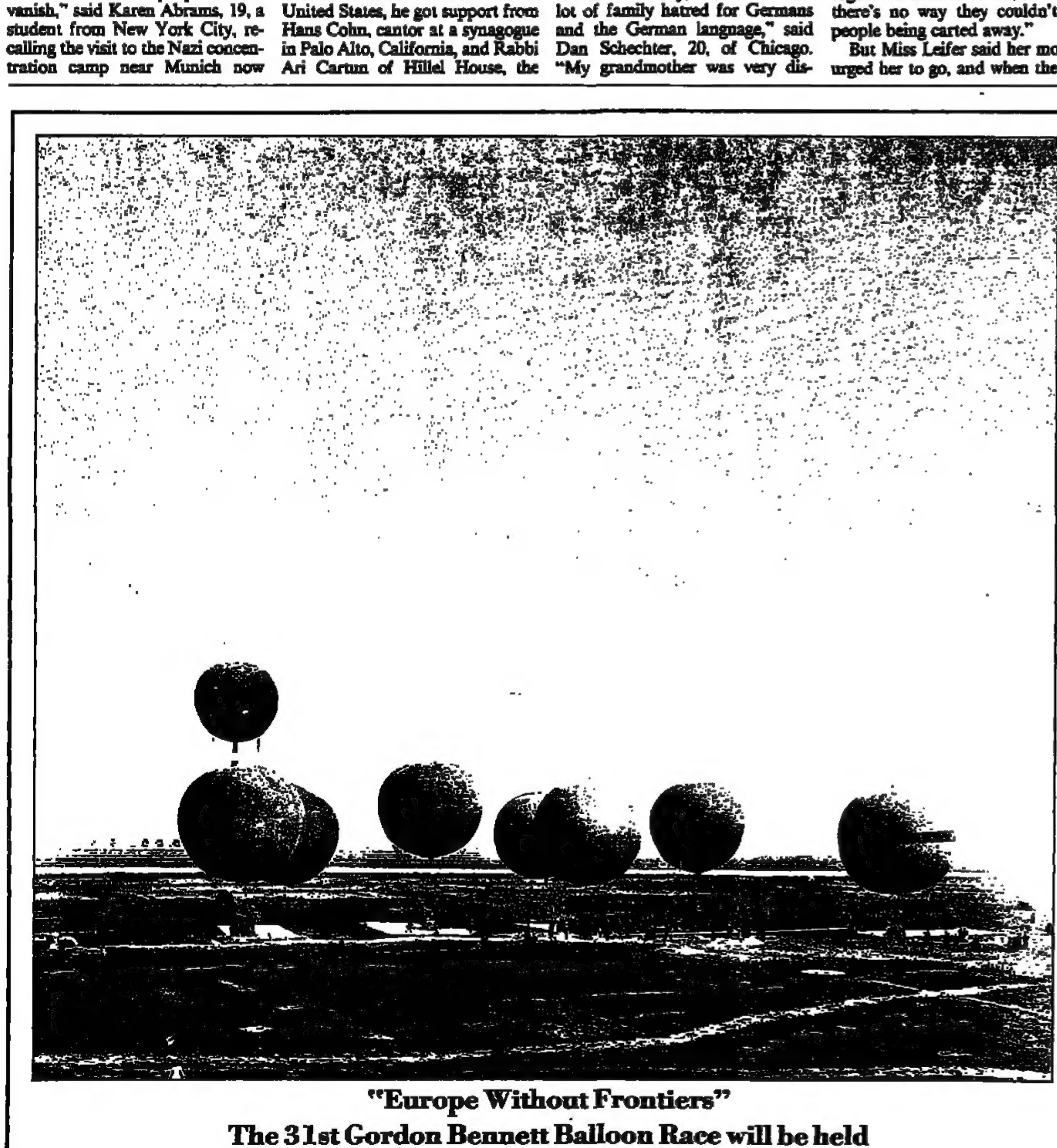
The Tunisian police increased their already tight security this weekend as a group calling itself the Caravan of the Martyrs sent a letter to news agencies threatening to respond to any death sentences with violence.

Western officials have expressed concern that the trial — rather than crippling the fundamentalist movement, as the government seems intent on doing — could result in strengthening it by making martyrs of the defendants.

Indeed, many Tunisians say the rapidly growing fundamentalist group, the Islamic Tendency Movement, poses the greatest threat to the rule of President Bourguiba since he came to power.

The five judges began their deliberations on Tuesday, and on Wednesday morning they summoned lawyers and journalists to the military base where the trial was being held for what most people thought would be the verdict.

People close to the government suggested that one reason for the delay in announcing the verdict was that informal pressure from France, the United States, Algeria and Saudi Arabia had caused some officials to reconsider their eagerness to execute many of the militants.



U.S. Tourist Killed in Paris

The Associated Press

PARIS — Three persons, including an American tourist, were killed in a pistol and machine-gun attack at a bar here, the police said Sunday. The tourist, Bach-Thien Vu, was killed when two gunmen opened fire Saturday at The Topless bar on the Boulevard Clichy. A hostess and the maître d'hôtel also were killed.

WORLD BRIEFS

Zhao Says He Doesn't Want Party Post

BEIJING (UPI) — Zhao Ziyang, speaking a month before he is expected to be named the permanent Communist Party leader in China, said in an interview broadcast Sunday that he does not want the post because he is better suited to handle economic affairs.

Mr. Zhao, who also is prime minister, also denied the widespread belief in China and abroad that the expulsion and forced resignation of several prominent liberal thinkers from the party this year constituted a crackdown on intellectuals.

"I'm not willing to be the general secretary of the Communist Party because I think I'm not fit to be the general secretary," Mr. Zhao said in an interview Friday with NBC News. The interview was broadcast Sunday. Mr. Zhao, 67, became the acting party leader in January when Hu Yaobang resigned amid allegations that he had allowed the spread of capitalist trends in China.

Conservatives Back Anti-Terror Effort

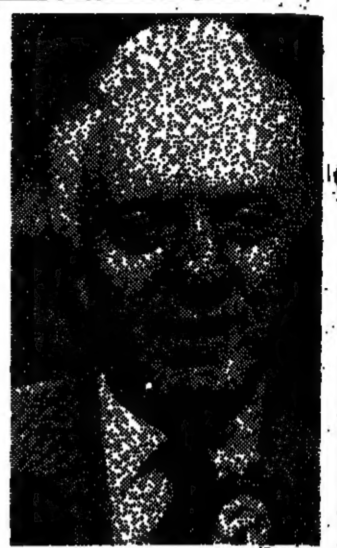
BERLIN (AFP) — President Ronald Reagan and the Soviet leader, Mikhail S. Gorbachev, must put the fight against international terrorism on the agenda for their next summit meeting, a 27-nation gathering of conservative political leaders said in West Berlin on Saturday.

Among those attending the third meetings of the International Democratic Union were Chancellor Helmut Kohl of West Germany, Prime Minister Margaret Thatcher of Britain and Prime Minister Jacques Chirac of France.

After three days of talks in the city's former Reichstag building the meeting on Saturday adopted a "Berlin Declaration" that called for a strengthening of international cooperation against terrorism. Members also called for an end to apartheid in South Africa, for free elections in Chile and for a cease-fire between Iran and Iraq.

Shevardnadze Begins Latin Tour

RIO DE JANEIRO (NYT) — The Soviet foreign minister, Eduard A. Shevardnadze, has arrived in Rio to begin a regional tour intended to improve Soviet relations with Latin America. The visit to Brazil, Argentina, Uruguay and Cuba is to last at least 10 days.



Reuters

Eduard A. Shevardnadze after arriving in Brazil.

Although the trip, which he began Saturday, is not expected to bring far-reaching agreements or create the stir made by his visits to Washington and New York, it has excited a good deal of curiosity because it will be the first tour by a Soviet foreign minister in South America.

Speculation is strong that Mr. Shevardnadze is paving the way for a visit to Latin America by Mikhail S. Gorbachev. Given the Soviet leader's busy schedule at home this autumn and a summit conference expected in the United States, officials said dates for such a trip were unsure.

Tamil Leader Dies After 12-Day Fast

COLOMBO, Sri Lanka (NYT) — A Tamil separatist leader has died after a 12-day fast to protest the way the Indian-Sri Lankan peace accord is being carried out. His death set off protests in the northern city of Jaffna.

The separatist, Amirthalingam Thileepan, a political leader of the Liberation Tigers of Tamil Eelam, refused food and water to dramatize the Tamil complaint that signers of the accord had failed to protect Tamil interests, as they had promised. He fell into a coma and died Saturday as Indian diplomats were talking to Liberation Tiger leaders in Jaffna.

India Arrests 46 in Widow's Suicide

NEW DELHI (Reuters) — Indian police arrested 46 people Sunday who were believed to be connected with the ritual death of a young widow on her husband's funeral pyre, the Press Trust of India reported.

Those arrested either were present Sept. 4 when Roop Kunwar, 20, committed *sati*, or immolation by a widow, or were associated with the ritual, the report said. Earlier this month, the police arrested six persons, including four relatives of the husband, in the village in the western state of Rajasthan where thousands watched the ritual.

TRAVEL UPDATE

Rome-Milan 'Super-Rapido' Begins

ROME (AP) — The first of four new "super-rapido" trains left here Sunday morning and reached Milan 4 hours and 55 minutes later, traveling at up to 125 mph (200 kph) to shave about an hour off a "rapido" train's speed for the 393-mile trip.

The new trains leave Rome daily at 7 A.M. and 5:55 P.M., and leave Milan at 7:50 A.M. and 6:55 P.M. A first-class, one-way ticket, for 102,000 lire ($78), includes various supplementary charges as well as lunch or dinner in one of two restaurant cars.

President Hosni Mubarak of Egypt and Prime Minister Jacques Chirac of France inaugurated the French-financed Cairo subway Sunday. The first subway in the Middle East and Africa, it will open to the public Thursday. *(AP)*

A delegation from Yugoslavia arrived Saturday in Israel to discuss direct flights between the countries, a Yugoslav official said in Tel Aviv. Yugoslavia, which cut ties with Israel in 1967, signaled a thaw by sending a Tanjug news agency correspondent to Israel in July. *(Reuters)*

The Netherlands has reached agreement with India to allow the Dutch airline KLM to continue flying to New Delhi three times a week. Under the contract, replacing an arrangement that expires at the end of September, KLM will pay Air India a fee to continue the flights. *(Reuters)*

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Taiwan, Vatican City.

TUESDAY: Paraguay.

WEDNESDAY: Botswana.

THURSDAY: Botswana, Burma, China, Macao, Nigeria, San Marino, South Korea.

FRIDAY: Bangladesh, China, India.

SATURDAY: Honduras, Israel, South Korea.

Source: Morgan Guaranty Trust Co., Reuters.

DOONESBURY

AMERICAN TOPICS


Reuters/UPI

BARD ON TRIAL — Turning from legal controversies to a literary one, three U.S. Supreme Court justices, from left, Harry A. Blackmun, William J. Brennan Jr. and John Paul Stevens, "ruled" in a moot court debate at American University in Washington that William Shakespeare was the likely author of the famous plays and sonnets, not the more worldly Edward De Vere, friend of Queen Elizabeth I and 17th Earl of Oxford.

On Brandeis University Menu: Ham Steak, Shrimp Tetrazzini

Ham steak and shrimp tetrazzini are on the menu this fall at Brandeis University in Waltham, Massachusetts, and debate has been renewed over what it means to be a Jewish-sponsored but secular university, The New York Times reports. The idea is to make Brandeis students who are not Jewish feel more comfortable.

Jewish religious law forbids the eating of shellfish and pork, and featuring both on the menu has aroused some opposition. The chaplain, Rabbi Albert X. Axelrad, said he was concerned that the institution, founded in 1948, might be growing shy about "its Jewish soul." But Evelyn E. Handler, the university's president, said Brandeis has appeared parochial and insensitive to the feelings of non-Jews.

"We're not trying to be less explicitly Jewish," said one trustee, Rena Blumberg, class of 1956. "We are trying to be more hospitably open."

A third of the 2,800 undergraduates at Brandeis are non-Jewish. About 300 of the Jewish students take their meals in the kosher section of the cafeteria system. This will be unaffected by the menu additions.

Short Takes

The Connecticut Appellate Court has overturned the conviction of a *man* who was forced to drive 150-mile (245-kilometer) round trips to court 25 times in three years, only to be repeatedly told that his case had been postponed, before it was heard. Rolf Almgren, 55, a Ridgefield gardener, had been fined $400 and given a 30-day suspended sentence for disorderly conduct and resisting police officers who had answered a complaint in 1982 that a hotel party Mr. Almgren was giving was too noisy. He said that his constitutional right to a speedy trial had been infringed. The appeals court agreed.

The New Jersey utilities board has approved a device that displays the telephone number of the incoming caller while the phone is still ringing. Some people have objected that this constitutes an invasion of privacy and that it will reduce anonymous tips to the police. But the police themselves *favor the idea as a way to thwart* obscene callers, reduce sales solicitation calls and help trace numbers during emergencies.

Diaper-changing tables are to be installed in men's restrooms at Bradley International Airport in Windsor Locks, Connecticut. "We're seeing a lot more men traveling with children," said Belinda J. Svirbely, the airport operations supervisor. "There is definitely a need for this." Several U.S. airports have installed diaper-changing rooms that are open to men and women. However, *Bradley may be the first to put them in* men's rooms.

Notes About People

Nancy Reagan says she had long wanted to campaign against drugs, but few shared her enthusiasm when she first broached the idea to White House aides. "They all thought that it was a downer," Mrs. Reagan told U.S. News & World Report, "and they weren't cheering me on this at all."

Sally Ride, who in 1983 became the first American woman in space, is turning down potentially lucrative lectures and interviews. Mrs. Ride was on the presidential task force that investigated the 1986 explosion of the space shuttle Challenger. A longtime friend, Fred Hargadon, said the resulting frictions led to her departure from the space agency. She is studying arms control at Stanford University on a two-year fellowship. Her father, Dale Ride, says she "does not want to be a public figure."

Thomas P. (Tip) O'Neill Jr., former speaker of the U.S. House of Representatives, has somewhat reluctantly allowed the new federal building in Boston to be named after him. He told a crowd of about 300 people at dedication ceremonies, "I don't think I ever voted in Congress for a building named after a man who had just left the Congress and was still alive." His son and namesake quoted the elder O'Neill's wife, Mildred, as saying, "He'll get over it."

—ARTHUR HIGBEE

Republicans Think They Can't Lose in '88

By David S. Broder and Haynes Johnson
Washington Post Service

NAPERVILLE, Illinois — "George Bush is a terrific team man," Ann Haney tells her fellow Republican activists. "He's always there" for local candidates, she adds. "But he has all the crowd appeal of a warm dish of oatmeal — I mean, without the raisins, without sugar, without maple syrup. Just oatmeal."

It sounds like a real put-down, but, in fact, she is leaning toward supporting Mr. Bush in the March 15 Illinois Republican primary.

Adherents of Senator Bob Dole of Kansas and the other four contenders for the 1988 Republican presidential nomination offered similarly unromantic views of their favorites, as 30 precinct captains and volunteer workers for the vaunted Du Page County Republican organization gathered here on two recent evenings to talk politics.

These loyal Republicans made it clear that none of the six contestants in the GOP presidential field remotely matched the appeal that President Ronald Reagan has held for them.

Their preferences were statistically close to the latest Washington Post-ABC News Poll, which shows Mr. Bush leading among Republican-inclined voters with 46 percent and Mr. Dole in second place with 32 percent.

The others trail far back: Representative Jack F. Kemp of New York and the Reverend Pat Robertson, each at 6 percent; former Secretary of State Alexander M. Haig Jr. at 3 percent; and former Governor Pierre S. du Pont 4th of Delaware at 1 percent.

The comments in Naperville and responses in the nationwide survey reflected ambivalence about the strengths and weaknesses of the Republican field. Strong enthusiasm for any of the candidates is rare.

Still, Republicans in Naperville and nationally remain confident about winning the 1988 election for a simple reason: They think that the Democrats are facing a far worse drought of talent.

"The Democrats have no real candidates and no big issues," said Ralph Johnson, a retired manufacturing executive and a du Pont supporter. "I don't see how we can lose."

That confidence is widely shared. In The Post-ABC News survey, 74 percent of the Republicans, compared with 59 percent of the Democrats, said they thought their party would win the 1988 election.

Naperville, one of the bellwether Republican counties in the nation, gave Mr. Reagan 76 percent of its vote in 1984.

The conversations in Naperville and the responses to the nationwide survey provide insights into the Republican presidential race, which will begin to take form in the next few weeks as Mr. Robertson, Mr. Bush and Mr. Dole make their formal declarations of candidacy and join Mr. du Pont, Mr. Haig and Mr. Kemp for the first debates of the campaign.

Currently, the focus is almost all on Mr. Bush and Mr. Dole. One or the other was the first choice of almost eight of 10 Republicans in the September survey, up from just over six of 10 in June.

Republican activists in Naperville, also, list Mr. Bush and Mr. Dole as their top preferences. Overwhelmingly, they rate the two as being the most qualified and most electable.

It is similar in the national survey. Mr. Bush is rated qualified by 92 percent of the Republican-inclined voters; Mr. Dole by 82 percent. Mr. Kemp and Mr. Haig are in the low 40s, Mr. Robertson at 22 and Mr. du Pont at 18.

The scores for the latter four are lowered by the high numbers of those polled who say that they do not know enough to judge. However, 47 percent say that Mr. Robertson is not qualified, more than double the number who find him qualified.

Mr. Robertson also has the dubious distinction of being named by 28 percent of the Republicans as someone they definitely would not consider voting for. Mr. Haig is at 16 percent in that measure. All the others are in single digits.

What Republicans are looking for in the next president came over clearly during two nights of discussion. They want experience and proven competence in government.

"We need someone like Jerry Ford, who knows how government works," said Paul M. Bauer, a real-estate appraiser, referring to the former president.

"I'm torn between George Bush and Bob Dole," he said, adding that "experience is the main quality."

That theme of experience and competence in making government work stands in sharp contrast to the anti-Washington, anti-government voter attitudes formed over the last decade. More than any other factor, it accounts for the preference for Mr. Bush and Mr. Dole, the two candidates with the most extensive national governmental resumes.

"We need someone who can get along with the *House and Senate*," one of the GOP regulars remarked.

Also working to the advantage of Mr. Bush and Mr. Dole is the perception that they are moderate, mainstream politicians capable of attracting the diverse kinds of voters whose support the minority Republican Party must have to retain control of the White House.

"We need a communicator and someone who will work with young people, especially on the problems of education and literacy," said Joan Salvato, a volunteer GOP worker who supports Mr. Bush.

Tim Sellers, who leans toward Mr. Dole, said: "We need a more moderate president; that's where it's swinging. As a young person, it seems to me that we've gone from one extreme to another with Jimmy Carter and Ronald Reagan."

For all their positives, Mr. Bush and Mr. Dole carry substantial negatives into the campaign. The greatest is the lack of excitement they convey and their perceived lack of ability to stir audiences.

Virtually the same kinds of negatives about them are volunteered by the Du Page County regulars *and the national sample of Repub*lican voters.

For Mr. Bush, the string of negatives includes: "bland," "boring," "not dynamic," "wishy-washy," "Reagan's shadow" and "preppie image."

For Mr. Dole, the greatest problem seems to be the lingering impressions of "that hatchet-man image," as one Republican in Naperville put it, stemming from his harsh tactics in 1976, when he was the Republican candidate for vice president.

Unfavorable comments about his tendency "to give too many gag lines" also are offered. Other negatives volunteered include: "good man but colorless," "opportunist" and "slippery."

'We need a more moderate president; that's where it's swinging. It seems to me we've gone from one extreme to another with Jimmy Carter and Ronald Reagan.'

— Tim Sellers of Naperville, Illinois, who leans toward Senator Bob Dole

FBI Chief Regarded as Tough and Fair

By Mary Thornton
Washington Post Service

SAN ANTONIO, Texas — When Judge William Steele Sessions was nominated in July to be the Federal Bureau of Investigation's fourth director, Attorney General Edwin Meese 3d said the White House had sought a "clone" of William H. Webster, the man he is succeeding.

The similarities between the two former federal judges, both Republicans, are striking. In Judge Sessions the FBI got a quiet, straight arrow who wins unusual praise from across the political spectrum for his toughness and fairness.

On Friday, the Senate voted 90-0 to confirm Judge Sessions, 57, for a 10-year term as FBI director.

Asked last July about his reputation as a "West Texas tough guy," Judge Sessions, who was born in Arkansas, smiled as he answered: "I love the accusation. I don't wear a gun belt, and I don't have any cowboy boots to my name. If I'm a West Texas tough guy, it's simply because we have dealt with some very difficult problems out there."


AP

William S. Sessions

Judge Sessions has a reputation for courage. In the early 1980s, he presided over the murder trials of the men who killed Judge John H. Wood Jr., a friend and colleague who was shot in the back as he left home to preside over their drug trial. For the 20 months after the murder, Judge Sessions and his family received 24-hour protection for fear the killers would strike again.

Colleagues said he is a "hands-on" type of administrator who is aware of some of the shortcomings of the FBI and will resist any attempts from inside the bureau hierarchy to manipulate him or insulate him from its daily operations.

Judge Sessions' strictness and concern for propriety are legendary. In Judge Sessions' courtroom, men wear coats and ties, chewing gum is forbidden, and spectators caught reading newspapers are removed.

Ray and LeRoy Jahn, husband and wife prosecutors in the U.S. attorney's office in San Antonio, recall running into Judge Sessions and his family on the street near their house during the Wood murder trial. The families had been friends for more than a decade, but there was no casual conversation that day.

Their daughters, born two days apart, were best friends and hugged each other as the parents stood by stiffly. The next morning, Judge Sessions dutifully announced in court that *the contact with members of the prosecutor's office had* occurred.

When Judge Sessions was named a U.S. District Court judge in 1974, according to the Jahns, he stopped socializing with prosecutors and defense attorneys, except for bar association functions, to avoid any possible compromise of his judicial neutrality.

Those who know him said his strictness is not a manifestation of arrogance or eccentricity. Rather, it reflects Judge Sessions' belief that the federal judicial system is sacrosanct and that defendants deserve the full respect of the court.

"He's firm, rule-oriented, strict," said U.S. Magistrate Jamie Boyd. "But he's very compassionate. He may give a strict sentence, but he does so with a bit of sorrow to it."

Gerald Goldstein, general counsel of the Texas Civil Liberties Union, added, "I can't think of an incident in which he broadly expanded a defendant's rights, but he has been as fair as any judge I've ever seen."

"Even though he was a prosecutor, he doesn't let the government muscle the defendant," Mr. Goldstein said, adding: "If I had a shot of winning, I'd as soon try it there as anywhere in the country."

Off the bench, friends and colleagues said, Judge Sessions is a different person. He is described as bright and funny, with broad interests, ranging from mountain climbing, space exploration and the San Antonio Spurs basketball team to reading poetry and playing Scrabble and Monopoly with his family. Every Wednesday at noon, he goes to the Rotary Club.

He is far from pretentious. Judge Sessions is often seen mowing his lawn or scrubbing his car, a blue 1969 Chevy Malibu that he bought new. *Instead of frequenting fancy* restaurants, he most often has lunch at Schilo's delicatessen, near the courthouse, rushing over at what his colleagues call "warp" speed, tilted forward with his arms swinging.

In contrast to the somber gray pinstripe suits he regularly wears beneath his judicial robes, Judge Sessions is often spotted after hours in striking plaid trousers that have become legendary. One judicial colleague said the trousers are "so bright that they glow in the dark."

Mr. Boyd, the magistrate, added: "When it comes to civil rights, he's extremely liberal. He ordered the El Paso County commissioners to build a new jail and offered to put them in jail if they didn't." The new jail was intended to relieve overcrowding.

Judge Sessions also is known in his judicial district for ordering a new prison for San Antonio and a limited busing plan to desegregate the El Paso schools.

Judge Sessions has been an avid mountain climber since he was 18, and he canoes.

Judge Sessions had polio when he was 16 and acknowledges that he will never be a technically advanced climber. But he said he loves the challenge, and he has made two treks, in *1976* and *1985*, up to the 18,000-foot *(5,500-meter)* level of Mount Everest.

The Everest climbs were strenuous enough that he lost 26 pounds (12 kilograms) on his first trip and 15 on the second. Judge Sessions later explained to his neighborhood weekly newspaper that the thought of eggs cooked in yak butter is enough to make anyone lose weight.

His quest for challenges led him to apply to the National Aeronau*tics and Space Administration* in early 1986 to be one of the civilians chosen for a space flight aboard the shuttle.

Papal Visit Didn't Alter U.S. Priests' Views

By Dennis Hevesi
New York Times Service

NEW YORK — A week after Pope John Paul II ended his visit to the United States, his pleas for a return to orthodox church teachings in many areas such as birth control and abortion appear to have had little impact, at least according to interviews with a dozen Roman Catholic priests around the country.

On matters of personal morality, liberal priests remained unconvinced, conservatives remained adamant and those in between seem to have heard what they wanted to hear among the pope's four dozen homilies and addresses in his 10-day tour of nine U.S. cities.

And while priests across the spectrum of thought said they perceived a willingness in John Paul at least to listen to the debate over such issues as priestly celibacy and ordination of women, others said the news media's focus on those questions had obscured the profound message in the pope's pronouncements on other subjects such as social justice.

But the Reverend Matthew Didone of Newark, New Jersey, said: "I firmly believe what I believed before, in the positions of the pope, but with much more clarity. The pope has been very firm, which has probably given a clear vision to many Catholics."

The interviews were conducted, after the pope's departure, with a dozen priests who participated in a New York Times-CBS News Poll just before the pope's arrival in the United States on Sept. 10. In the original survey, 55 percent of the 855 priests polled said they favored the right of priests to marry and 35 percent were opposed. On ordaining women, 43 percent were in favor and 43 percent were opposed.

Forty-six percent of the priests perceived the pope to be more conservative than themselves; 1 percent said he was more liberal, and 51 percent said his views were "much like their own."

The Reverend Bernard Gustas of Schenectady, New York, said: "I didn't change my mind about anything. No married priests, no women priests, no abortion. Homosexual activity — I don't go along with that. All of the things he espoused, I go along with."

The Reverend James Voelker of East St. Louis, Illinois, said: "Celibacy — I think it should be optional. Ordination of women — I would be for that. With regards to birth control, if people just want to have a good time, *I think* they need to examine that. But I also think that people who can't afford more children need an option other than abstinence."

But even on abortion, where all other respondents firmly supported the pope's position, Father Voelker did not take an absolutist view.

"I'm against abortion," he said, "However, in some cases, like rape, incest, you can't make a blanket statement."

In the middle, the Reverend Thomas Garthwaite of Arcadia, Wisconsin, agreed with most of the pope's positions. But he allows more room for choice.

"I think he was just giving the traditional view," he said. "I don't think he was giving hard and fast rules about the future. I would think he is open to change. He has to give the teaching of the church, you see. But how the individual lives that is a matter of conscience."

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

With Moscow in the Gulf

The Reagan administration seems stuck on the cusp of its own ambivalence about Gulf policy. Some days it frets about Iran's assaults on ships and regional stability; other days, it worries more about the Soviet Union. Just when it seemed that the president had resolved the debate by naming Iran as the clear danger, the State Department jumped the other way and simply dismissed a Soviet suggestion to put the United Nations flag on a joint naval force policing the Gulf.

Whatever the conceivable merits of the idea, the department's spokesman is right in calling it too complicated to put into practice soon enough. But the spokesman went on to say that the administration opposed giving the Soviet Union "the chance to increase its presence in the region." That is curious, since the Soviet Union is the only major power able to reason with both Iran and Iraq about their war, and its support is critical to the U.S. effort for an arms embargo against Iran. A workable U.S. policy in the Gulf has to take these realities into account.

Mr. Reagan would like the Soviet Union to join in voting an arms embargo to punish Iran's refusal to heed a Security Council appeal for a cease-fire in the Iran-Iraq war. That is attractive to Washington: It keeps Moscow from cuddling up too close to Tehran and requires no further Soviet action or presence. But Mikhail Gorbachev has his own ideas, and favors an approach that would enable Moscow to avoid a break with the Khomeini regime. He seeks a commission to study who caused the Iran-Iraq war, and to start doing so before a cease-fire. That is something the mullahs desperately desire, and also something Washington can safely explore since the Security Council has already agreed to such a commission after a cease-fire. But Mr. Gorbachev also wants to establish a peacekeeping role for his country in the Gulf, and there lies the problem.

Mr. Gorbachev recently extolled the United Nations in the Soviet press. This new thinking was elaborated by Foreign Minister Eduard Shevardnadze, whose address to the General Assembly appeared to reverse four decades of Soviet hostility to UN peacekeeping. He proposed giving life to a Military Staff Committee meant to enforce peace under the Security Council's five permanent members. At this moment, the proposal does not seem practicable in the Gulf, but the idea is worth exploring. When the Russians talk about the need for permanent members to use UN machinery, they are moving to the same high ground from which two generations of American diplomats have lectured the General Assembly.

Perhaps the Soviet proposal can be turned in another direction. What about putting UN flags on Kuwaiti tankers and other nonbelligerent ships in the Gulf? America cannot patrol those waters at present strength indefinitely and will need a graceful exit.

Soviet proposals can be laden with mischief and stratagems harmful to American interests. But President Reagan can also be attentive to creative opportunities to work with Moscow — especially when there is no other way to end a dangerous war.

— *THE NEW YORK TIMES.*

Yes, Link Arms to Peace

Yitzhak Shamir underlines the central consideration that ought to guide arms sales to countries in the Middle East and other troubled regions. Speaking in a Wall Street Journal interview about proposed U.S. sales to Saudi Arabia, Israel's prime minister said: "Until an Arab country is active in peace with Israel, it shouldn't get sophisticated U.S. weapons." The notion of linking arms to peace, or to a diplomacy seeking peace, seems exactly the right test to apply to commerce in arms. The trouble with Mr. Shamir's formulation is that it contains the potential for embarrassing his government.

That government is currently stymying a proposal that has much international support, including formal American support: an international peace conference. Each concerned government has its own view of such a conference, but basically all are prepared to go forward. Whether a conference would produce a good result is necessarily a matter of doubt and speculation. But that America has a paramount interest in carefully exploring every reasonable opening is undeniable. Saudi Arabia and other "moderate" Arabs are eager. Israel resists — or rather, Mr. Shamir's half of Israel's strangely organized government resists, and his half blocks the other half, which is ready. The U.S. government, deferring to Israel, has suspended almost any active effort to organize a conference pending an easing of Israel's objections.

We are not here claiming that the United States should put the squeeze on Israel and deny sophisticated arms until Israel joins the parade to a conference. But surely it is relevant to American deliberations on selling arms to Saudi Arabia and like Arab countries that the Saudis are eager, even desperate, to support a serious diplomatic proposal that the United States sanctions and that Mr. Shamir rejects. The Saudis are friends who live in dangerous parts; they have a claim to buy weapons apart from the Arab-Israeli dispute. But to deny them arms when they meet in an approved American fashion a very fair and reasonable Israeli standard to become "active in peace with Israel" — even as Israel blocks the calling of a conference and rejects the parallel opportunity to become "active in peace with Saudi Arabia" — is all wrong.

— *THE WASHINGTON POST.*

Debt Demands Action

The Reagan administration's new support for a hefty expansion of World Bank lending can help ease the Third World debt crisis, but not a lot and not soon. This menacing overhang, now five years old, demands more effort by creditors and debtors.

At the annual meetings of the bank and the International Monetary Fund this week, the air will be full of ideas for new debt solutions — interest rate reduction, capping annual interest payments, swapping debt for equity investment, debt discounts or outright forgiveness. Such unwieldy gatherings cannot produce bold strategies. But participants can return home and light fires. This crisis deserves no less.

Mexico stunned the world in 1982 with news that it could not continue repayments. It turned out that most of Latin America and black Africa and several Asian countries were in the same fix. High interest rates on excessive borrowings and soft prices for vital commodity exports, on top of wretched economic inefficiency, drove them to this pass. Today, few seem scarcely back on track. Most are little or no better off. Africa is desperate.

Third World debt exceeds $1.2 trillion now, up from $850 billion in 1982. The strategy of forcing debtors to adopt austere reforms, supported by the new loans, has not raised export earnings enough to offset higher debt service costs and the crippling outflow of nervous capital. Living standards and domestic investment are down in shaky new Latin democracies. The biggest debtor, Brazil, has halted interest payments; others balk at paying more than limited amounts. On the creditors' side, banks have reduced lending and started stashing billions in reserves.

While the search goes on for strategies that work, Western governments must help by coordinating policies to avoid higher interest rates and sharp currency swings, and by filling the credit gap. Expanding the World Bank and IMF aid for the poorest countries are obvious steps. Japan offers bolder thoughts. Finally rising to its responsibilities as a world leader, it hints at supporting a modified version of Brazil's recent proposal to replace some debt with discounted bonds.

Whatever creditor nations and commercial banks do, debtors must keep grinding at reforms to make their economies more efficient and less inflationary, and make investment attractive enough to bring back capital. Nothing is gained by just pouring in more money that goes to waste.

— *THE NEW YORK TIMES.*

Turks Want Democracy

Even years after a military coup, the fourth in the republic's 60-year history, Turkey is still trying to loosen, one by one, the restraints left over from military rule. The generals who toppled the government in 1980 to put a stop to escalating terrorism and internal anarchy turned power over to Prime Minister Turgut Ozal's parliamentary government in 1983. But they shielded Mr. Ozal from opposition by banning from political activity almost all the leading figures of precoup politics, including two former prime ministers, Suleyman Demirel, the conservative they had deposed, and Bulent Ecevit, a social democrat. Since 1983, Turkish politics has been slowly changing for the better, and this month Turks voted narrowly in a referendum to lift the ban on those two politicians along with about 100 others. That will allow both men to run against Prime Minister Ozal in general elections called for Nov. 1.

The margin in favor of lifting the bans was tiny — less than one-fourth of 1 percent — but that result may be the one most likely to promise both democracy and stability. Mr. Ozal, who has led considerable economic improvement but still has a good distance to go, had campaigned openly against lifting the ban, fearing too strong an electoral challenge from his former rivals. His campaign reflected badly on him and his party, and ultimately failed, but the sizable "no" vote indicates the dimensions of his support. In any event, the outcome is an aura of increased democratic openness that should boost Turkey's efforts to join the European Community, which has made Turkey's constraints on democracy a major impediment to membership.

Not all those who voted "no" will be automatic supporters of Mr. Ozal. Nor do all the "yes" votes imply opposition. Rather, they reflect the referendum's broader accomplishment: the demonstration that there is a genuine thirst in Turkey for democracy and for acceptance as a democracy by the West.

— *THE WASHINGTON POST.*

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OPINION

Four Glasnost Standards for Gauging Soviet Change

By A.M. Rosenthal

WASHINGTON — Right now is an excellent time for Americans to begin thinking and talking about a question central to security and foreign policy: How can we decide for ourselves whether the Soviet Union is embarked on permanent reforms that would allow us to enter a new era of trust and cooperation in our relations?

What the Russians do inside their borders is their business, except when they violate international agreements — such as the United Nations Charter provisions on observing human rights. But how we react to what they do is our business; it affects not only what we think about the Russians but what we think about ourselves.

So we should decide for ourselves what we can reasonably expect from the Soviet Union. The purpose is not to draw up a shopping list of demands. It is to create our own guidelines to help us figure out, as time goes on, whether glasnost is permanent and growing or still rests atop a system that can destroy it at any time.

That will allow us to decide if the time has come to support Mikhail Gorbachev with economic and political capital, as we are so often urged to do.

Mr. Gorbachev raised the issue by making changes that do not restructure Soviet political society but do introduce fresh air and the hope of more winds of change to come. He recognized the economic disaster of the system, told his people about the failure and is trying to work up and out of it.

This is exactly the time for Americans to start serious public examination of how to judge where the Soviet Union is going. We are choosing a new president who will have to draw up his own criteria. Voters should know what those criteria are.

We are also taking an arms reduction step that is not overwhelmingly important militarily but may bring larger steps. This could mean a permanent end to fear of war. Or are Richard Nixon and Henry Kissinger right to warn that we are destroying the balance that has helped us avoid war?

And there is this to think about: The Soviet Union achieved military equality with America more than a decade ago. Now it is presenting itself as a country wiping out the tyranny of the past and therefore also as the political and moral equal.

If that is so, America's great asset of being seen — and seeing itself — as the flag-carrier of freedom against despotism will logically diminish.

If it is not so, to accept "egalitarianism" will not only give the Soviet Union an undeserved status but will distort our concept of ourselves and the particular quality of American values.

Some guidelines for Americans:

1. Soviet willingness to reduce conventional strength in Europe so that the removal of the nuclear deterrent will not leave the Soviet Union in a position to use its superiority in manpower and battlefield weapons. That would present the permanent threat of a war that the West could not win. Moscow says it is ready to deal seriously on conventional arms and should be taken up on it, now.

2. Soviet adherence to international agreements — United Nations, Helsinki — that guarantee human liberties, including emigration, religious worship and expression, as rights and not as permissions granted. The fulfillment of human rights treaties, which include emptying the camps for political prisoners, will be a clue to the likelihood of fulfillment of life-or-death disarmament treaties.

3. Soviet political and military liberation of Eastern Europe. If glasnost is deep and lasting, Moscow need no longer fear that freedom in Eastern Europe would infect the Soviet Union.

Moscow should be held to the same standard that the United States maintains in its relations with its immediate neighbors. We would not permit foreign armies in Canada or Mexico. But we do not garrison our armies in border countries or try to rule them from Washington. Eastern Europe cannot be an anti-Soviet base. But a Soviet Union building democracy internally can safely allow Eastern Europe to determine its own political systems.

4. Rapid movement toward dismantling the police-power structure of Soviet society. The KGB is often represented as a threat to Mr. Gorbachev. Perhaps it will be, one day. Right now he commands it. As long as KGB police power is the dominant Soviet political reality, glasnost can be halted or reversed by the KGB or by Mr. Gorbachev himself.

Before Mr. Gorbachev took over, it would have been ludicrous to suggest these guidelines seriously. Now they are critically important as signs of where he is going — and whether and how fast we should be going with him.

The New York Times.

Now for a Serious Response to Third World Debt?

By Robin Broad

WASHINGTON — As the Third World drowns in debt, 3,000 of the world's financial managers gather in Washington for the annual meeting of the World Bank and the International Monetary Fund. A continent away from the consequences of the debt, they are likely to avoid facing the problem head-on and instead to engage in what economist Martin Feldstein has aptly phrased "creatively muddling through."

The problem this time, with a number of debtor countries edging toward unilateral action, is that muddling may no longer be enough.

The last half decade of annual meetings has been shaped by the debt crisis, ever since the announcement by Mexico in 1982 that it could no longer service its debt. And most debt crisis watchers look to the annual meetings for a signal of how the United States, and specifically the Treasury Department, is going to try to manage the crisis for yet another year.

The signal is loud and clear this year. We are almost certain to get a shortsighted view of the problem and nothing more than refinement of the current set of non-solutions.

As an international economist in the Treasury Department, I participated in the planning of perhaps the most famous of these non-solutions — what has become known as the Baker plan for Third World debt, announced two years ago at the annual meeting in Seoul.

It was a plan that received accolades the world over.

If truth be known, those accolades surprised some of us on the inside. The Baker plan was not much of anything new, and it certainly was not going to solve the problem. Indeed, that was not its real goal.

In fact, the plan was pasted together quickly in breakfast meetings between Treasury Secretary James Baker and Paul Volcker, then chairman of the Federal Reserve Board. It was simply an attempt to steal the thunder from the new Peruvian president, Alan García, who had the gall to unilaterally apply his own formula for cutting back Peru's unsustainable debt service without consulting the United States. Mr. Baker's speech was calculated to regain the initiative.

Accordingly, the Baker plan was primarily rhetoric — a good speech, but without follow-through. It called for substantial new lending to the 15 most troubled debtors between 1986 and 1988, particularly from the World Bank and private banks. But no one even asked the private banks in advance if they were willing to increase lending to the Third World. And the other creditor countries of Western Europe and Japan — whose banks hold more Latin debt than do U.S. banks — were not even consulted.

As it turned out, private creditor banks were no longer interested in lending new money; they and the International Monetary Fund have become net borrowers from the Third World. Nor was the World Bank, an institution that lent mainly for dams, roads and other projects, suited to the role of global debt manager.

Inside the Treasury Department we simply could not be bothered. We did not look at the situation in the developing world and say the obvious: Yet more lending only compounds unpayable debt service burdens for most. We did not look at the links between the debt and markets for U.S. exports and make the clear connection: If we don't reinvigorate the Third World enough to revive demand for our goods, we'll lose even more manufacturing jobs in the United States.

Why the shortsightedness? Part of the answer lies in the normal bureaucratic response to crises: Take whatever measure will quickly erase the most visible part of the problem and let someone else worry about the rest later.

Shortsightedness in this case is also rooted in a particularly narrow view of national interest. The Treasury actions have catered to the short-term profit of large American banks, but increasingly at the expense of workers, businesses and farmers who have lost Third World markets. Such a perception of national interest fails to see that the real crisis is a development crisis and that the poverty and despair that this breeds across the Third World are the real threat.

This shortsightedness must change.

It may be only the developing world that has the ability to move the United States to see the problem differently. After developing countries' five years of deteriorating standards of living, their tolerance for crisis management at the expense of their human and natural resources is wearing thin.

Brazil stopped paying interest on its commercial debt in February. Ecuador suspended interest payments in early 1987. The Ivory Coast, once touted as the African free market success story, halted payments in May. A month earlier, Zambia broke with the IMF austerity plan. From the Philippines to Argentina, new coalitions built around demands for drastic reductions in debt service are gaining mass support and political clout.

Back in Washington, the big question remains: Can the bureaucracy step beyond its shortsightedness and see the need for some creative, managed write-down of Third World debt before the majority of debtor nations slide chaotically toward unilateral acts of debt repudiation? History and the logic of bureaucracy are not optimistic on this score. We're all too good at muddling through.

The writer, a former U.S. Treasury official, is a Council on Foreign Relations fellow at the Carnegie Endowment for International Peace. He contributed this comment to The New York Times.

From Contender to Shocked Victim

By David S. Broder

WASHINGTON — What gives? Is the press out to prove its power and disprove charges of leftist bias by sabotaging one liberal Democrat after another? No. We in the media are taking seriously our responsibility to deal with the character and competence of potential presidents. But we are doing it in our usual imperfect way.

Doris Kearns Goodwin, biographer of Lyndon Johnson and the Kennedys and a scholar of the presidency, has made the point that journalists ought to pay close attention to how truthful presidential candidates are in their reflections of reality. Once behind the fence at 1600 Pennsylvania Avenue there is inevitably a strong temptation to reconstruct the world as you wish it to be.

The same Lyndon Johnson who invented a grandfather who died heroically at the Alamo, she pointed out, had no problems converting what was at best an ambiguous naval incident in the Gulf of Tonkin into the excuse for massive escalation in Vietnam. The fake grandfather seemed mere hyperbole, perhaps worth only a laugh. But the Gulf of Tonkin incident led to tragedy.

That was the serious warning sign that made reporters highlight Joe Biden's appropriation of others' words and sentiments. And it is why we twitched when we learned that he had invented an academic renown far greater than his record.

A second element in his behavior was also worrisome. In many of the troubling campaign incidents, Mr. Biden was acting on instinct. The plagiarism of Neil Kinnock occurred to him in a van on the way to an Iowa debate. The videotaped exchange with a New Hampshire voter in which he misrepresented his academic record came during a spontaneous question-answer session. The concern about Mr. Biden among many who have worked with him is that his impulses are unchecked by judgment or reflection.

In Senate hearings, he often appeared so caught up in his own thoughts that he could barely define a question to the witness. A lobbyist who worked with him commented on his habit of showing up late for meetings and straying from the agenda: "When you're elected to the Senate at age 29, it's easy to think the meeting begins when you walk through the door and the subject is whatever you've got on your mind."

All those things provided the context in which reporters viewed these recent, self-destructive incidents. I do not think we exaggerated their import — any more than we did in the very different incidents involving Gary Hart.

But there is still a distortion, because no human being can be reduced to one or two traits without serious risk of caricature. In Mr. Hart's case, the picture we drew at the end omitted many of his redeeming qualities: his intelligence, his willingness to do the hard work of policy analysis, even the steadfastness of his political course, in sharp contrast to his personal behavior.

Similarly with Mr. Biden, the focus has been too narrow to do justice. His sister Valerie tells touching and convincing stories of his generosity and protectiveness as an older brother. And last summer I saw him walk away from a large number of clamoring fans at a Chicago meeting (many were political activists any presidential candidate would love to recruit) and closet himself for close to an hour with a stranger in pain.

The man had almost broken down while telling Mr. Biden he had just learned he had a fatal disease — AIDS. He could deal with the threat to his life, but not with the prospect that his treatment might leave his family bankrupt. "What kind of a society is this?" he asked in his pain.

That much I overheard. The rest was between Mr. Biden and this man, but when I saw the man later in the meeting, he seemed calmer. Mr. Biden had found a way to help him, if only by listening. And he did it out of a generous impulse. That compassion, too, deserves to be noted about the latest departed candidate.

The Washington Post.

Could You Pass Such an Inspection?

THERE is a new criterion, a new device for weeding out presidential candidates: the self-immolating gaffe. Gaffegate occurs when a remark or action reaches critical mass in the media. If the trend continues, we run the risk of turning the presidential campaign process into a political version of the movie "Rollerball," in which the winner of a futuristic skating contest was the last contestant still alive by the final whistle.

We should remember a story credited to Emanuel Celler, for 50 years a congressman from Brooklyn. While trying to ward off an attack on him, he talked about a fastidious constituent who inspected a chicken at her butcher's. She picked up one wing, said Mr. Celler, and groaned. She inspected a leg and said, "Feh!" And then, nearly turning the chicken inside-out, she pronounced it unfit. Behind the counter, the angry butcher said, "Ma'am, may I ask you a question?" She said yes. "Could you pass such an inspection?" — *Mark Green, writing in The New York Times.*

For Habash, The Weight Of Failure

By Jim Hoagland

DAMASCUS — Georges Habash, the radical whose name has been a synonym for terror for nearly two decades, rises stiffly from behind his desk and extends an atrophied right hand in greeting. On his wall hangs a small tapestry depicting the Dome of the Rock Mosque in Jerusalem.

His right side is partially paralyzed as a result of a mishap during brain surgery seven years ago. He leans heavily on a pair of canes to maneuver slowly across the basement apartment before settling into an armchair.

At 62, Mr. Habash seems to carry the weight of failure on his crippled frame. His generation has failed to turn into a reality the Palestinian revolution that they proclaimed. They will see the Dome of the Rock and Jerusalem's other landmarks only in dimming memories and pictures on walls.

Mr. Habash still predicts ultimate victory over Israel, but he now concedes that it will not happen in the time left to him. It will be instead for another generation, whose leadership is likely to come from the West Bank and the Gaza Strip rather than the Palestinian diaspora that created the Palestine Liberation Organization 20 years ago.

"Israel is creating its own antithesis," Mr. Habash says. "Israel is digging its own grave by saying there is no such thing as the Palestinian people. This policy of saying they will crush the Palestinians will force the Arab people to say, 'We will not accept.'"

"I will die in 10 years," he continued. "By then Palestinians will be 50 percent of all the population" in Israel and Israeli-held territories. "Today they are only 37 percent. Scientifically we can show that the present situation will change in our favor."

This demographic argument is one that is much debated in Israel today. But it is striking to hear it advanced by this once fiery Marxist guerrilla leader as the core of a strategy of waiting, hoping for world opinion to change, and running "operations" only inside Israeli-held territory. His recitation is a measure of how far Palestinian fortunes have fallen under the leadership of the PLO's founding fathers and the Arab rulers of the same generation.

Seen as a destabilizing threat by Arab regimes, the Palestinians have had to be controlled and manipulated, as much as supported. The myopic and uncourageous political leadership of Yasser Arafat and the blind fury of the terror groups that killed in the name of Palestine have also harmed the movement. The ebbing of Palestinians' hopes is also represented by Mr. Habash's frank admission that they can never again build a "state within a state" in Lebanon, as they did before the 1982 Israeli invasion.

The key figure in current PLO attempts to negotiate a cease-fire with the Lebanese Shiite movement Amal in the "war of the camps," Mr. Habash says that a stable peace agreement would lead to "radical changes in our presence in Lebanon."

"If there is a Lebanese regime that can give us security, we must ask ourselves what do we Palestinians really want in Lebanon. To continue holding arms in the same way that was going on before 1982 is impossible. It would be very harmful.

"That does not mean we go back to the situation before 1969," when Palestinian camps in Lebanon were essentially under Lebanese control. But "we need a new formula" that "is very clear and not contrary to national Lebanese interests." He added, "We have told Amal this."

When he negotiates with Amal, he is also negotiating with Syria, which backed the Lebanese organization in its two-year war to block PLO guerrilla groups from re-establishing themselves in the camps. Syria vows to control the PLO, or to break it.

The camps war and the reaction to Syria's effort to destroy Mr. Arafat have brought a surface unity to PLO groups. But Mr. Habash's acid criticisms of Mr. Arafat's efforts "to open the road to an American solution" reflect a fragmentation that has now almost certainly gone too far for current leaders to overcome.

The divisions reach even into the Popular Front for the Liberation of Palestine, which Mr. Habash founded in 1967. A bitter dispute over cooperation with Mr. Arafat has driven Bassam Abu Sharif, Mr. Habash's principal spokesman for more than a decade, out of the PFLP. He has gone to Algiers, where he reportedly is working with Arafat loyalists.

The split with the younger guerrilla, whom Mr. Habash appeared to treat as a son, was the only subject he would not address during the two-hour discussion. Beyond whatever pain it has brought, the separation is an unsettling omen for the generational change that looms as the PLO's last chance.

The Washington Post.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: Parades for Funds

NEW YORK — All three political parties are embarrassed by lack of funds with which to continue the contest for the Presidency. The progressives are asking for $900,000 from their supporters, which they will endeavor to collect through the efforts of bodies of women adherents of Theodore Roosevelt's "Bull Moose" party. These women, nicknamed "Moosettes," are parading the streets like Salvation Army lassies, with collection-boxes. Today [Sept. 28] the "Moosettes" enlisted the services of "Johnny" Mayes and "Mike" Ryan, the Marathon runners, who, wearing running costumes and sandwich-boards, marched at the head of a procession of automobiles filled with "Moosettes," distributing Roosevelt badges and pamphlets, together with printed invitations to a grand "Moosette" ball.

1937: Mussolini's Visit

PARIS — [The Herald says:] In many ways the visit of Mussolini to Hitler has been indicative of a complete change of outlook from that which was current in Europe a quarter of a century ago. But while the novel aspects of Germany's welcome may be heartily approved, it must be regretted that some of the unpleasant features, which stressed the combative nature of state visits in other times, were retained. Without the lavish display of military uniforms, the attendance at field maneuvers and the inspection of cannon works, the meeting might have marked a new starting point in the history of international cooperation, and might have been hailed as such. But because the visit has been the occasion of a revival of a past which should have been left behind, modern democracies must reverse their verdict.

Children Recount Brutality by Pretoria

By William Claiborne
Washington Post Service

HARARE, Zimbabwe — Blinking into glaring television lights and almost speechless with bewilderment, 11-year-old William Modibedi haltingly told his story of being tortured in a South African jail last year.

Many of the 500 delegates here for an international conference on children and apartheid gasped and some cried as William tried last week to recount through an interpreter his story. He said he was picked up by security police on Oct. 6, 1986, and held for two months and two days in jail cells near Krugersdorp, north of Johannesburg.

His thin voice quavering and his head barely rising above a dais table in the Harare convention center, the boy, with his mother at his side, said that two of his teeth were knocked out in a beating by his interrogators and that he was given electric shocks to force him to confess to setting cars on fire during demonstrations.

'Nothing draws the heartstrings like the plight of children who are detained and tortured in South African prisons.'

— An official of the African National Council

A 13-year-old girl identified as Tabisa Mabusa, who is paralyzed from the waist down, sat in a wheelchair and told the delegates that South African police agents burst into her house in Gaborone, Botswana, on June 14, 1985, and shot her in the spine as she tried to flee.

Many other witnesses, most of them teen-agers, offered similar testimony during the three-day International Conference on Children, Repression and the Law in Apartheid South Africa, which ended Saturday.

It was the biggest gathering ever of blacks and whites from South Africa and senior officials of the African National Congress who are living in exile in Africa and Europe.

But the meeting also dramatically underscored the importance of a key weapon in the ANC's public relations arsenal: the effect on children of the struggle against apartheid in South Africa.

"Nothing draws the heartstrings like the plight of children who are detained and tortured in South African prisons," said a top ANC official, who asked not to be identified.

He said that in listening to the testimony, "I cried, and I've seen it before."

"Imagine how it affects people who have never heard it before," he added.

As a tactic in the battle with South Africa for world opinion, the issue of detained children has no match, anti-apartheid campaigners in Zimbabwe readily conceded.

The Harare conference, they said, has been particularly important because of its timing. It precedes two potential milestones in the worldwide campaign to intensify economic sanctions against the Pretoria government.

One is a meeting of Commonwealth heads of state in Vancouver, Canada, next month to discuss sanctions.

The second is a U.S. State Department report to Congress on the question of South Africa's response to sanctions imposed last year.

The conference organizers said that the convergence of these events with the testimony of the children was a coincidence. But they made no attempt to hide their satisfaction with the discomfort the South African government might feel at so crucial a time.

After hearing the testimony, Oliver Tambo, the ANC president, said: "Let all those in the West who still treat this regime as legitimate explain why they continue thus to aid and abet the commission of a crime against humanity.

"Let them stand accused as those who, by refusing to impose sanctions, extended a helping hand to the apartheid regime so that it could continue its terror against the children," he continued.

At the beginning of the conference, the Reverend Trevor Huddleston, a veteran anti-apartheid campaigner and former Anglican archbishop, urged foreign journalists covering the conference to report in vivid detail what he described as the "inhumane brutality against children in South African jails.

"Sanctions obviously are exceedingly decisive," he said. "Great Britain and West Germany will do everything possible to prevent effective sanctions. The only way open is mandatory sanctions."

Glenys Kinnock, wife of the British Labor Party leader, Neil Kinnock, and an anti-apartheid activist, acknowledged using the opportunity as a tactic in the battle to increase sanctions. She conducted an emotional interview with some of the child witnesses outside the conference hall for a British television news broadcast.

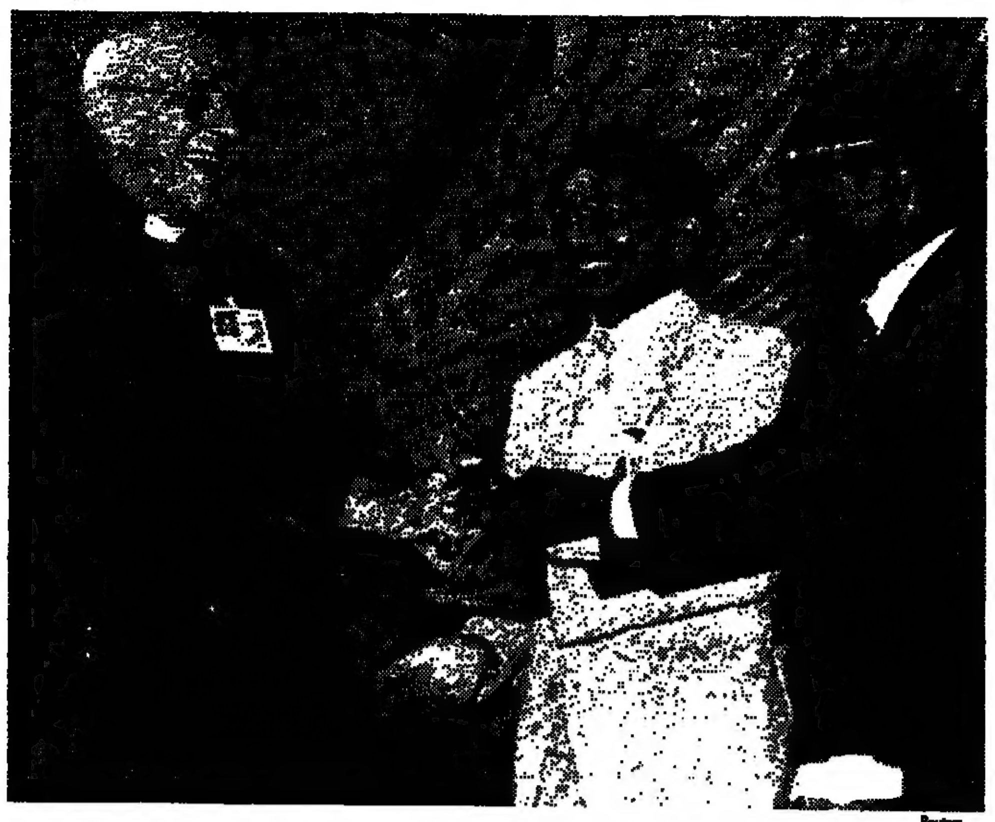
Vowing to take the children's testimony back to the British Parliament, Mrs. Kinnock said: "Those who speak of the suffering that they say sanctions would cause must be reminded of what is happening daily to thousands of children in South Africa because that regime is not subject to rigorous pressure from outside."

The South African government already has shown its sensitivity to the potential damage the conference could cause to its efforts to project an image of reform-mindedness and conciliation toward militant black nationalists.

On the opening day of the conference, the South African law and order minister, Adriaan Vlok, issued a statement in Cape Town saying he anticipated that misleading statistics would be issued in Harare by the Detainees' Parents Support Committee, which is based in Johannesburg.

Mr. Vlok said that only 115 children under the age of 18 were still being detained. Most of them, he said, are being held for serious crimes such as public violence and murder.

The Detainees' Parents Support Committee maintains that at least 400 children under the age of 18 are among 1,800 people being held in South Africa without charge.



Reuters

The Reverend Trevor Huddleston, left, an anti-apartheid activist, greeted Oliver Tambo, right, leader of the African National Congress, and other activists at an international conference in Harare, Zimbabwe, on the effect of apartheid on children in South Africa.

In Japan, Worldliness Counts

Learning English, Travel Abroad and Pasta Are the Rage

By Nicholas D. Kristof
New York Times Service

TOKYO — Japan's knowledge of the West has come a long way since one of its first visitors to the United States reported in 1860 that all single American women were called Joan, "while married ladies are distinguished by the suffix 'sons,' such as 'Joansons.'"

These days the Japanese are more enthusiastic than ever about learning about the West, and the quality of the information is improving.

The buzzword in Tokyo is *kokusaika*, or internationalization. In pursuit of that goal, students, secretaries and executives more than ever are studying English, traveling abroad, listening to Michael Jackson records, dating foreigners and eating pasta.

"English is the international language," said Akira Nambara, research director of the Bank of Japan, in explaining the enthusiasm for learning the language. "Or, I should say, broken English is the international language."

Of course, Japanese have studied foreigners and foreign languages since Commodore Matthew C. Perry "opened" Japan with his gunboats in 1853. Golf, baseball and rock music have been popular for decades.

But kokusaika has surged in the last few years, partly because of the expansion of Japanese corporations overseas and the arrival of more and more foreign corporations in Tokyo.

"It's kind of a prerequisite for Japanese to go abroad, to learn foreign languages, culture, customs," said Hiromitsu Takemi, deputy manager of the Japan Development Bank.

C. Itoh & Co. attracted attention this summer when it became the first large Japanese corporation to appoint a foreigner — in its case, a Korean-American — to its board of directors. Japan Air Lines announced this month that it would hire 120 foreign flight attendants.

And Japanese who were spurned even a few years ago because they attended U.S. universities now find employers clamoring for them.

Yet kokusaika is not all work and no play. Ethnic restaurants are the latest rage in Tokyo; Mexican, Indonesian, Indian and Italian restaurants are flowering around the city. So are pool halls and pizza parlors.

It is also becoming more common for Japanese to date foreigners, although families still do not always approve. An American banker living in Tokyo, a single man, says he knows of only two ways for an American man to end a romance with a Japanese woman.

The first, he says, is for the man to explain coldly that the relationship is finished and that he is flying home for good the next day. The second is to ask to meet the woman's family.

That might not work these days when there are more mixed marriages. The proportion of Japanese men marrying non-Japanese women has soared nearly fourfold over the last decade, so that today a bit more than 1 percent of Japanese men marry non-Japanese women. Among Japanese women, six-tenths of 1 percent marry non-Japanese, double the figure a decade ago.

The figures, particularly for men, are bloated by the practice of importing Filipino wives for Japanese men, and by marriages to ethnic Koreans who have lived in Japan all their lives but are still regarded as aliens.

More Japanese are also living and traveling abroad. The strength of the yen makes it increasingly expensive for foreigners to come to Japan, but the number of foreigners visiting Japan nevertheless rose 4.5 percent in the first half of 1987, to 1.02 million.

Foreign travel, on the other hand, is cheaper for the Japanese. A record 3.08 million Japanese traveled abroad in the first half of 1987, up 22 percent from the same period last year.

English has been widely studied in Japan for decades, but the last few years have seen a special burst of enthusiasm. Large concerns like Nissho Iwai Corp. offer English lessons to employees each morning before work.

Some 1,300 English language schools operate in Tokyo alone, and the number is rising by at least 100 a year. It is estimated that 10 percent of the population now studies English.

In Asia, Population Ups and Downs Pose Challenge

By Michael Richardson
International Herald Tribune

SINGAPORE — After 15 years of exhorting its citizens not to have more than two children, the government of Singapore has launched a campaign of persuasion and financial incentives to encourage people to "have three, and more if you can afford it."

Brigadier General Lee Hsien Loong, Singapore's minister of trade and industry, warned recently that if a decline in the country's birthrate was not reversed, the consequences would be calamitous.

There would no longer be enough young people to sustain economic growth, defend the country or pay for the increasingly costly burden of caring for the aged.

"If we don't reverse the trend," he said, "Singapore will be nothing but old folks' clubs, and instead of spending Sunday mornings discussing our future, we'll be sitting around discussing our past."

In neighboring Indonesia, Mohammed Sadli was sounding a different warning.

Mr. Sadli, a former cabinet minister who is now an analyst with the Indonesian Chamber of Commerce, said recently at a conference of economists, business executives and government officials that if steps were not taken to prevent an expanding population from outstripping employment opportunities, Indonesia could face mounting social and political unrest.

Indonesia, with 170 million people, is the fifth most populous country in the world. Singapore, with only 2.6 million, is one of the world's smallest nations.

They are on opposite sides of a population paradox facing countries in Asia.

A report published last month by the United Nations Economic and Social Commission for Asia and the Pacific noted that a significant shift in the age structure of the region's population was creating a new baby boom, as the number of women of childbearing age increased, as well as swelling the number of elderly.

Since 1970, the report said, the average birthrate in the region stretching from China in the north to New Zealand in the south, and from Iran in the west to tiny Pacific islands in the east, had declined sharply.

This was coupled with a fall in mortality rates, brought on by better nutrition and health care.

Tatsuro Kunugi, deputy executive director of the United Nations Fund for Population Activities, said at a planning conference in Bangkok in August that demographic developments in the Asia-Pacific region, which has more than half the world's population, "determine to a considerable extent global population trends."

He said the area's population was expected to surpass 3 billion in the next three years and to reach 4 billion by the year 2020.

The global population was officially estimated to have passed 5 billion in July.

The impact of the drop in fertility and the rise in life expectancy in Asia has been most pronounced in China, Hong Kong, Japan, Singapore, South Korea and Taiwan.

In a study published in May, Ernesto M. Pernia, an economist at the Asian Development Bank in Manila, found that annual population growth rates from 1960 to 1985 averaged 1.91 percent in China, 2.36 percent in Hong Kong, 1 percent in Japan, 1.79 percent in Singapore, 2 percent in South Korea and 2.32 percent in Taiwan.

The generally accepted replacement rate needed to prevent long-term population decline is 2.1 percent.

General Lee said that in Singapore, the birthrate had dropped from 1.62 percent in 1985 to 1.44 percent last year, one of the lowest rates in the world.

If the 1986 figure became a trend, he said, Singapore's population would start to shrink after peaking at 2.9 million about the year 2010.

Mr. Pernia's study projected that from 1985 to 2010, the rate of population increase for China, Japan, Hong Kong, Singapore and South Korea would fall well below the replacement rate.

The UN report said that in countries where the population was aging rapidly, new ways would have to be found to care for the elderly and to provide income maintenance and social security.

But it said that a more pressing problem for many of the largest developing countries in Asia was to cope with the consequences of high fertility and falling mortality in the past, which had resulted in an increase in the proportion, as well as the absolute number, of women of childbearing age.

For example, in China, the report said, the number of women of childbearing age would rise by 25 percent to 346 million by the end of the century. In India, the number would grow by 39 percent to 250 million and in Indonesia by 41 percent to 58 million.

Family planning and population control measures should therefore be intensified to cope, the report added.

Mr. Pernia said that while the increase in the number of women of reproductive age was dramatic, an even more critical development was the projected growth of the Asian population's labor force over the next two decades.

In Hong Kong, Singapore, South Korea and Taiwan, the increase in the working population between the ages of 15 and 64 from 1985 to 2010 would be more than 14 million, he said.

This surge, Mr. Pernia said, would send more rural dwellers to already overcrowded cities in search of work.

Jaruzelski Rebuffs Bush On Appeals For Change

By Jackson Diehl and David Hoffman
Washington Post Service

WARSAW — The Polish leader, General Wojciech Jaruzelski, rebuffed on Sunday appeals from Vice President George Bush for political changes sought by the banned Solidarity trade union, describing them as "suicidal" in talks that appeared to make no headway in resolving U.S.-Polish differences.

On the second day of a visit here intended to boost his presidential campaign at home, Mr. Bush repeatedly made symbolic gestures of support for Solidarity while taking a hard line with the government. He flashed a Solidarity victory sign at a waiting crowd, heard praise for Solidarity and the individual freedoms guaranteed by the U.S. Constitution at a Mass, and met Sunday night with Lech Walesa, the Solidarity founder, at a private dinner.

"We support Solidarity," Mr. Bush said as their meeting began. "We support pluralism. We've been very clear on that."

Mr. Walesa responded: "We thank the ruling team of the United States very much for its understanding of the Polish problem."

In what he described as a gesture to the Polish people, Mr. Bush informed General Jaruzelski on Sunday that the United States would cooperate in helping Poland to reschedule outstanding debts with the Western government creditors. U.S. officials said the vice president had been sympathetic to Polish expressions of frustration and urgency over making payments on its $31 billion foreign debt.

Officials conceded, however, that Mr. Bush had not succeeded in winning any additional commitments by General Jaruzelski to the political reforms the Reagan administration maintains are necessary in Poland, including the reestablishment of free trade unions. Instead, officials said, General Jaruzelski reviewed at length ongoing initiatives of his government and argued that his human rights record was good.

At St. Margaret's Church in the village of Lomianki, where Mr. Bush attended Mass Sunday morning, The Reverend Jan Czerwinski delivered a strong endorsement of Solidarity and praised the U.S. Constitution as "a miracle."

"We in America have watched and suffered with you," Mr. Bush told the crowd. "But we are confident that you will not merely survive the present difficulties, but that you will prevail."

■ Walesa Detained

Mr. Walesa was detained briefly by the police Sunday evening on the way to his meeting with Mr. Bush, witnesses said, United Press International reported.

Mr. Walesa was stopped about 100 yards (90 meters) from the residence of the U.S. chargé d'affaires, the witnesses said. It was not immediately clear whether U.S. officials interceded to get Mr. Walesa into the residence.

Angolan Leader Meets Pope

Reuters

VATICAN CITY — The president of Angola, José Eduardo dos Santos, met privately over the weekend with Pope John Paul II during a two-day visit to Italy, the Vatican said, but no details of the talks were given. The pope is expected to visit Angola during a tour of southern Africa late next year.

Providing la République With a New Pretender

Lionel Cironneau/The Associated Press
Prince Jean at the ceremony at the Château d'Amboise.

By Edward Cody
Washington Post Service

AMBOISE, France — The Count of Paris, the chief pretender to the French throne, had 2,000 of his closest friends and supporters by the Château d'Amboise on Sunday for a regal little ceremony.

Under a brilliant autumn sun beside the 15th-century château, the count marked the Capetian Dynasty's first millenium and moved to ensure its survival for a second by presenting his 22-year-old grandson as his royal heir "to exercise fully the rights and duties of the Capetian House, as I did myself."

The count's full name is Prince Henri Robert Ferdinand Marie Louis Philippe d'Orléans. He has turned 79, and one never knows in the royalty business.

The French have done without a king — nicely, they will tell you — since Louis Philippe was unceremoniously overthrown in the revolution of 1848. In fact, they seem constantly to remind one another how good it feels to be rid of royalty, shouting *vive la République* at nearly every official ceremony.

But the count and a minuscule number of Frenchmen have been brought up differently. For them, France still needs a crowned head to rise above electoral politics and play the role of arbiter and symbol of the nation. While embracing modern democracy, the royal dynasty proclaims it is ready for the call if France ever feels the need.

"I intend to pursue until my last breath the dream that today is millenary," the count said Sunday before turning over his powers — or pretensions — to his grandson Prince Jean.

Prince Jean, who has finished philosophy studies and starts law (republican) next month, responded that he is ready to take up the burden of service to France — just in case anyone asks — and carry on a family tradition started when Hugues Capet was crowned in 987 and founded the House of France.

"If one day circumstances lead Frenchmen to confer national responsibilities on me, it will be because I have earned their confidence by my work, my efforts and, I hope, my services rendered," he said. "The second millennium has begun, in honor, peace and respect. With the help of God, long live France."

Painfully aware of history here since 1789, no one shouted "Long live the king." On the other hand, no one ruined the morning's elegant tone by shouting *vive la République* either.

As a choir of young boys sang a Te Deum, the royal family moved among their guests to accept applause and congratulations. Symbols of royal hospitality, tables laden with food and drink, were spread about the château grounds on a bluff overlooking the Loire River.

The count also conferred on Prince Jean the title of Duke of Vendôme, apparently hoping to make it easier to wait for the call. Dukes of Vendôme have done well in the family, Henri reminded his grandson.

Prince Jean's 19-year-old brother, Prince Eudes, also received a title, becoming Duke of Angoulême. Their sister, Princess Marie, got to sit on the platform of honor for the High Mass and royal ceremony, but she received no title. In the Capetian dynasty, women remain outside the line of succession.

That is one part of the royal tradition that the count would rather not talk about. His eldest son, the erstwhile Count of Clermont, who is Prince Jean's father, is still around.

The undeclared meaning of Sunday's conferral on Prince Jean thus was a generational jump in succession. This was decided because the count and his son, also named Henri, do not get along.

The reason for the dynastic spat, of course, is a woman. The young Henri, Count of Mortain, formerly the Count of Clermont until he was demoted by his father, was married at the age of 24 to Marie-Theresa, Princess of Wurtemberg, a German noblewoman who took the title the Duchess of Montpensier in France.

After having two sons and a daughter with Marie-Theresa, however, the younger Henri ran off with a divorcee, Micaela Cousino Quinones de Leon.

The elder Henri insisted the Capetian Dynasty existed only within the rules of the Catholic Church, and that his son had therefore excluded himself from the line of succession. In Sunday's ceremony seeking to underline his wishes, the count reminded the young Jean, who is still a bachelor, that hereafter he could marry only within the church and with authorization from the head of the House of France — that is, from grandfather.

GULF: *Criticism From Weinberger*

(Continued from Page 1)

wanted to use this for political purposes. Of course, we refused."

■ 'Off Record,' Envoy Says

The U.S. ambassador to Bahrain, Sam H. Zakhem, said Sunday that he was speaking for himself and "off the record" when he suggested that Iranians captured aboard an Iranian mine-laying vessel might be held for a possible swap for foreign hostages held in Lebanon, the Associated Press reported from Manama.

Mr. Zakhem also denied a report quoting him as saying the State Department did not have access to the 26 seamen to find out if any of them wanted political asylum.

In a telephone interview, Mr. Zakhem said The Washington Post had violated an understanding that comments made to a group of journalists on Saturday night were "off the record," meaning not for attribution to him in any way.

The Post reported its Sunday editions that Mr. Zakhem had told reporters "he believed that, if given the chance, some of the crewmen of the Iran Ajr would have sought political asylum in the West."

"But," the newspaper quoted him as adding, "no State Department personnel responsible for handling requests for asylum had access to the Iranians while they were in U.S. Navy custody."

Mr. Zakhem, 51, said Sunday: "Whatever I said about returning or not returning the prisoners, those were my personal views. And never did I claim that the State Department did or did not have access to them."

The Iranians were repatriated to Iran on Saturday, hours after the U.S. Navy blew up the landing craft.

IRAN: *Raid Seen as Lift for Arabs*

(Continued from Page 1)

minister of information, Sheik Tariq Moayyed, "and the fact that somebody stopped them was very positive. If you know that people are alert and will stop you, then you might think twice before doing it again."

In the short run, the U.S. military may wring additional concessions out of Oman, Bahrain, Saudi Arabia and Kuwait for joint use of air and naval bases. Some support has been provided for some time without public acknowledgment.

But converting secret military assistance on the Arab side of the Gulf into a Western-Arab alliance to isolate Iran and cut off its arms supply still appears a distant and unlikely prospect in Arab capitals, officials and diplomats said.

There has been a strong and persistent sense in the conversation of leaders of Arab nations in the Gulf that they will have to continue living with Iran long after the Western fleets go home.

The American attack may also have raised some fears in the Gulf that the United States has crossed a new threshold of escalation, beyond which Congress and American public opinion may not be willing to support. The willingness of U.S. forces to attack Iranian mine warfare forces, therefore, may not translate into an American response to Iranian aggression elsewhere in the Gulf.

Since the Iranian-inspired violence in Mecca in Saudi Arabia at the end of July, Arab League foreign ministers have twice rejected Saudi calls for a break in relations with Iran.

A meeting of the Arab League heads of state is scheduled for Nov. 8 in Amman, and the subject of how to deal with Iran is high on the agenda. But as a Bahraini official said, "Our hopes are high, but our expectations are moderate."

The fact of life for the Arab Gulf nations is that for the most part they must continue to profess in public their desire for a diplomatic solution that contains the militarism of both Iran and Iraq.

The intervention of the Western navies, if it has done anything for them, has relieved them of the endless hand-wringing over finding a regional or Islamic world solution to the seven-year-old war.

In one sense, the big powers are now the foil for the weakest nations in the Gulf neighborhood, who had pursued a policy of aiding Iraq in private until Iran resorted to military intimidation and internal subversion to punish them.

Ever in search of a safe haven, the Arab nations that have the most to lose from an Iranian-backed breakout in the Gulf region appear to be preserving their option to play peace makers with Iran — but only after the Americans have applied sufficient pressure to bring Iran to the table.

IMF: *Dollar Steady*

(Continued from Page 1)

take to seek a shortcut by a further dollar depreciation."

Treasury Secretary James A. Baker 3d said Sunday that he had not asked West Germany and Japan at the meeting to take additional steps to stimulate their economies, but held out the prospect that he would press for action in the future.

After the three countries follow through on the commitments they made under the Louvre agreement, "then we will look at what needs to be done," he said in a televised interview program.

West Germany and Japan agreed in February to approve tax cuts and other measures aimed at stimulating domestic demand and accelerating growth of their economies.

The seven nations cited those steps in their communiqué Saturday, saying that "growth in domestic demand in surplus countries is picking up." They also praised a decision by President Ronald Reagan's decision to sign legislation *that will reduce the U.S. budget* deficit by $23 billion next year.

But in a speech Sunday before the IMF's Interim Committee, Mr. Baker said that "imbalances remain large, and slow growth in Europe is a matter of concern, particularly in the largest countries."

This statement appeared to be a reference to the concern of U.S. officials that West Germany is growing too slowly.

"It will be difficult to retain strong export-led growth in the developing world if Europe does not participate in the process of *strengthening growth now* underway in other countries," he said.

International policymakers' claims that the dollar need not fall further to help correct world trade imbalances are likely to be severely tested in the near future, European currency analysts said Sunday.

"What the officials are saying is still wishful thinking," said Bob Bauer, a senior currency dealer at Commerzbank in Frankfurt. "We are on the right road but we've not arrived yet. The dollar will have to go down."

While the worst of the trade problems may be over, analysts believe that the adjustment process is too slow and that further action, such as deeper cuts in the U.S. budget deficit or faster growth in Japan and West Germany, is required. *(AFP, NYT, Reuters)*

Coup Leader Says He May Declare Fiji a Republic

Reuters

SUVA, Fiji — Lieutenant Colonel Sitiveni Rabuka has said that he is prepared to declare Fiji a republic and leave the British Commonwealth, and the first signs of violent protest against his second coup in less than five months have emerged.

Colonel Rabuka, 39, met the governor general, Ratu Sir Penaia Ganilau, on Sunday for talks believed to center on turning the South Pacific nation into a republic, military sources said.

The meeting came several hours after a bomb exploded in Suva, killing an Indian and seriously injuring two others as they apparently were trying to set it.

Colonel Rabuka staged the coup Friday to forestall Sir Penaia's plans for a sharing of political power between ethnic Fijians and the Indian community.

The military said a faculty member of the University of the South Pacific was killed Sunday when the bomb exploded in his lap in a car outside the university.

The army said it did not know *the intended* target of the bomb, and officers were waiting to question the two injured Indians.

The blast underscored the rising tension between ethnic Fijians and Indians, who slightly outnumber Fijians in the population of 714,000.

Colonel Rabuka told an Australian journalist that he was prepared to declare Fiji a republic and, if necessary, withdraw from the Commonwealth as early as Oct. 10.

He said he chose Oct. 10 because it is the 17th anniversary of independence from Britain and the 113th anniversary of the transfer of the island chain to Britain by traditional chiefs in 1874.

Military sources said Colonel Rabuka presented Sir Penaia with a *tabua*, or whale's tooth, as a traditional mark of respect before the discussions Sunday.

Sir Penaia, the representative of Queen Elizabeth II of Britain, had been heading an interim administration since the first coup.

Colonel Rabuka overthrew the elected government of Prime Minister Timoci Bavadra in May after Fijian militants threatened violent protests against the prime minister's Indian-dominated coalition.

On Sunday, troops had a firm hold on Suva, the capital, with roadblocks at every major junction and soldiers with automatic rifles patrolling the deserted streets.

ARMS: *U.S. Officials Divided on Space Defense Talks*

(Continued from Page 1)

proposed limits on the speed of interceptors and the brightness of lasers are "not that far out of the ball park."

Another expert said that the limits proposed on the size of space-based mirrors are regarded as more of a problem, while suggested limits on particle-beam and microwave weapons are regarded as overly severe.

The Soviet list does not address some potentially important issues, such as when and where tests would be conducted, U.S. experts said. They added that other important issues had to be clarified.

The Soviets said last week that if the United States did not want to work out such a list of limits, it should agree to what Moscow calls the traditional interpretation of the 1972 anti-ballistic missile treaty, which sharply restricts the testing and deployment of anti-missile systems.

The Reagan administration has argued in favor of a more permissive interpretation of the treaty that would allow extensive testing in space of some "exotic" types of defense systems, such as lasers.

Mr. Nitze and other State Department officials are said to favor talks in which the United States would offer counterproposals on what objects could be tested in space.

Supporters of his position assert that the Soviets are unlikely to agree to a treaty reducing the number of long-range arms unless they receive assurances on the scope of "star wars" testing for a specified period, as Moscow has demanded.

Mr. Nitze's position is strongly opposed by some senior Pentagon officials and others.

One senior Pentagon official said that the administration should be emphasizing the importance of cooperating with the Soviets in a transition to anti-missile defenses instead of taking steps to preserve the ABM treaty.

CASEY: *Woodward Book Lifts a Corner of the Veil on His CIA Operations*

(Continued from Page 1)

and conversations with Mr. Casey from 1983 to 1987. Mr. Woodward writes that he never understood why Mr. Casey talked with him. At one point he quotes Mr. Casey as saying, "Everyone always says more than they are supposed to."

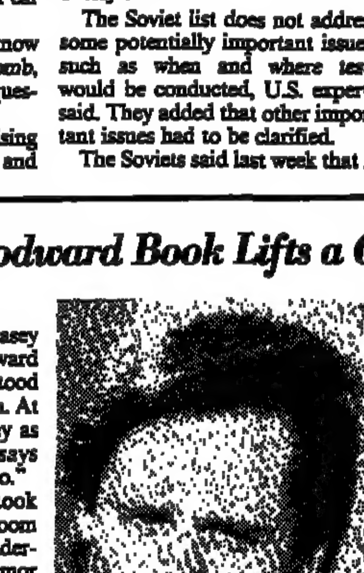
Their last conversation took place in Mr. Casey's hospital room several weeks after he had undergone surgery for the brain tumor that led to his death.

Mr. Woodward asked Mr. Casey if he had known of the diversion of profits from U.S. arms sales to Iran to aid the Nicaraguan rebels known as the contras.

Mr. Casey nodded.

Mr. Woodward asked Mr. Casey, "Why?"

"I believed," the gravely ill man replied. Then he fell asleep.



Bob Woodward

The book also describes how the administration became obsessed with terrorism and threats of violence from the first months of the Reagan presidency, after Mr. Reagan was wounded in a March 1981 assassination attempt.

That attempt had a greater impact on official attitudes than is generally understood, Mr. Woodward says, because Mr. Reagan came closer to death, and had a more difficult time recuperating, than the public realized at the time.

While the picture presented to the public by the president and his aides was one of a remarkable recovery, officials at the White House worried that Mr. Reagan might not be physically able to resume command.

Mr. Woodward portrays Mr. Casey as aggressively pushing the CIA into ever-expanding secret and paramilitary worldwide operations, often in the face of strong agency dissent and with the clear intent to circumvent congressional oversight even if it meant "cooking the books" and distorting intelligence information.

The House and Senate select committees on intelligence have long suspected Mr. Casey of some of these activities; Mr. Woodward's book raises many questions about the effectiveness of congressional oversight.

The book also raises questions about what other secret activities were occurring while Mr. Casey ran the CIA, and what else might still be operational. Mr. Woodward writes that he was able to learn only a fraction of the story of Mr. Casey's secret activities.

Among the other disclosures in the book:

● Mr. Casey personally planted an electronic "bug" in a foreign leader's office, several CIA officials said, though a senior official described the incident as "apocryphal." Mr. Woodward writes that he asked Mr. Casey about it. "He glowered dramatically when I mentioned the name of the country and the official and said that that should never, never be repeated or published."

● The Reagan administration misled Congress about the justification for its support of the contras. Initially, the administration program was designed to interdict arms shipments from Nicaragua's Sandinist government to leftist rebels in El Salvador. But the support continued after the arms shipments ceased and the true purpose of the program emerged: to overthrow the Sandinists.

Later, while the administration maintained that its covert support of the contras was intended only to interdict the export of arms from Nicaragua, the CIA had a military plan "to split Nicaragua in half" with invading forces moving north and south.

● Mr. Casey's first deputy director of central intelligence, Admiral Bobby R. Inman, an intelligence professional with broad support on Capitol Hill, quit early in 1982 because Mr. Casey cut him out of the contra operation and refused to answer his questions about it. Mr. Casey also hid details of the contra operation from Mr. Inman's successor, Mr. McMahon, who retired in 1986.

● After Bashir Gemayel was elected president of Lebanon in 1982, he "secretly asked the CIA to provide him covert security and intelligence assistance," and Mr. Reagan approved an intelligence "finding" authorizing such support. Mr. Woodward says Mr. Gemayel, who was assassinated before taking office, "had been recruited by the CIA when he came to the U.S. in the early 1970s to work for a Washington law firm" and remained on the CIA payroll for years.

● CIA records show that "at one point $100,000 had been passed" to the government of Prime Minister Mary Eugenia Charles of Dominica, the Caribbean island that played a key role in the October 1983 U.S. invasion of Grenada. Mr. Woodward says Miss Charles denied to him that she knew of any such payment. Miss Charles joined Mr. Reagan in the White House briefing room on the morning after the invasion, staunchly defending the operation after the Organization of Eastern Caribbean States, which she headed, requested U.S. intervention in Grenada.

● Mr. Casey was deeply influenced by a 1981 book on terrorism by Claire Sterling, "The Terror Network," that argued that the Soviet Union was behind much of the terrorist activity in the world. Mrs. Sterling's thesis was discredited by the CIA's own reports, but the fact that the government had concluded that "the Soviets were not the hidden hand behind international terrorism" was never made public, according to Mr. Woodward's book.

● One of the biggest CIA facilities outside the United States is in Cairo, and the CIA had "the Egyptian government wired electronically and had agents from top to bottom." Mr. Woodward writes that the Egyptian president, Anwar Sadat, worked closely with the CIA before his assassination and at times treated the director of central intelligence "like a case officer."

● In 1983 the CIA was running about 12 "security and intelligence assistance operations," ranging in cost from $500,000 to more than a $1 million annually, to preserve the governments of such leaders as Ferdinand E. Marcos in the Philippines and Gaafar Nimeiri in Sudan, both of whom have since been overthrown.

● Mr. Casey greatly expanded the CIA's covert budget for propaganda operations, providing money secretly to foreign newspapers, think tanks and institutions as well as funding "to keep a few European writers in readiness."

He was instrumental in arranging for $25,000 to be funneled through a private U.S. foundation to help the Roman Catholic Church in Nicaragua, a project canceled after Senator Daniel Patrick Moynihan, Democrat of New York, then vice chairman of the Senate Select Intelligence Committee, learned about it and protested strongly, Mr. Woodward reports.

● Three months of intelligence reports in the autumn of 1981 citing Libyan threats to assassinate Mr. Reagan and other senior U.S. officials created a frenzied atmosphere in the CIA and at the White House, leading the president to order that military contingency plans be developed.

The CIA later determined that many of the reports came from sources "whose credibility is open to question" and that the reports "may have been generated because informants are aware that we are seeking this information."

● The embarrassing revelations of 1985, "the year of the spy," were all preceded by warnings the government could not or did not heed.

In the late 1970s intelligence officers on the staff of Admiral Isaac C. Kidd, then commander of the Atlantic Fleet, concluded that Soviet reactions to U.S. fleet exercises showed that they were reading the U.S. Navy's classified message traffic, but nothing was done until the John Walker spy ring was discovered in 1985.

A secret Navy report in 1982 concluded that the Soviet discovery of a tap on an underwater communications cable had to have been the result of information provided by a human source, but this was ignored until the spying of Ronald W. Pelton at the National Security Agency was discovered in 1985.

● Similarly, the book reports, the CIA station chief in Moscow cabled Washington in 1984 about alarming Soviet successes against agency operations in the Soviet Union, events that were understood only when the betrayals of Edward Lee Howard, a former CIA agent who fled to Moscow, were discovered in 1985.

● Congress also had counterintelligence problems, according to the book. Two "bugs" were discovered in the office of Barry Goldwater, then Republican senator from Arizona, when he was chairman of the intelligence committee. U.S. security personnel did twice-weekly sweeps of Mr. Goldwater's office but were unable to determine who planted the devices.

The book also describes how Mr. Casey became increasingly anxious to go beyond normal channels to carry out operations, often by turning to the "friendly" Saudi and Israeli intelligence services.

"We have a chance to establish our own foreign policy," he is said to have remarked privately to another official, a comment that echoes criticisms later made about him by congressional investigators. "We're on the cutting edge. We are the action agency of the government."

"As much as anybody's, even the president's, Casey's convictions, fierce loyalties and obsessions were behind the Contra operation, the Iran initiative and the range of other secret undertakings and clandestine relations," Mr. Woodward writes. "His view of the law — minimum compliance and minimum disclosure — had permeated the Reagan foreign policy enterprises. His ambition had been to prove that his country could do 'these things,' as he once told me. He meant covert actions conducted in true, permanent secrecy. It was part nostalgia. It was also part demonstration of willfulness."

Mr. Woodward's book describes numerous incidents in which members of Congress knew or suspected many details of secret operations but did nothing, either because of pledges of secrecy, or lack of interest or will.

Mr. Woodward's book leaves many questions unanswered. One has to do with Mr. Casey and the book itself.

Mr. Woodward writes: "We talked at his house, at his office, on plane rides, in corners at parties, or on the phone. At times he spoke freely and outlined his views. At other times he declined. Overall, I was able to obtain his perspective on the major intelligence topics discussed in this book."

The book adds, "He rarely was willing to be identified by name or as a source for my newspaper writing. He also knew I was gathering information for this book on the CIA, and on a number of occasions he stipulated that information was not to appear in the next day's newspaper but was for the book."

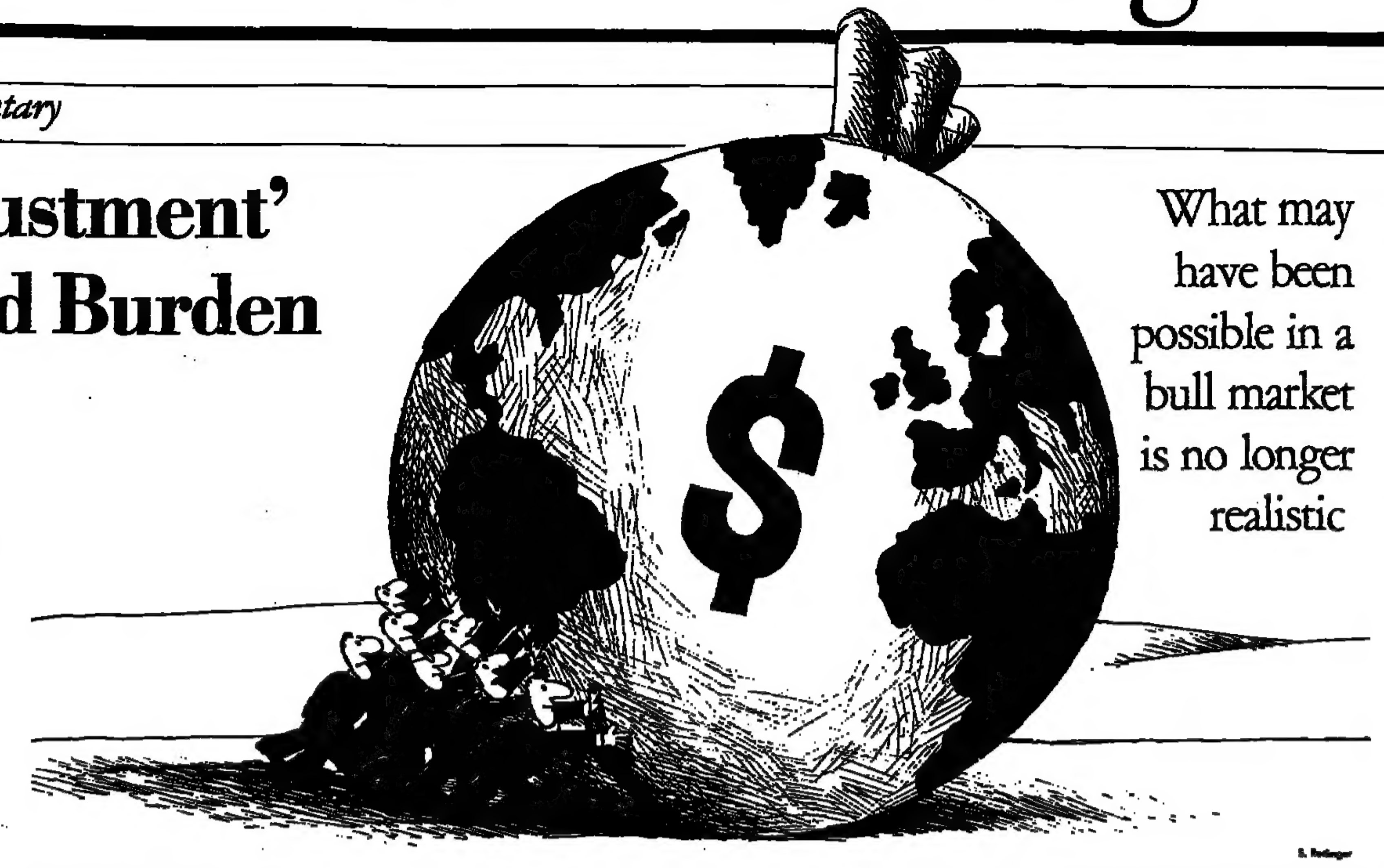
Why would Mr. Casey, who viewed the press as an adversary, not an enemy, do that? Mr. Woodward speculates that it was Mr. Casey's way of "playing defense" or of "shaping the story." Perhaps he was prompted by considerations of personal curiosity.

International Herald Tribune Special Financial Report *Monday, September 28, 1987*

World Banking

Commentary

Why 'Adjustment' Is a Shared Burden



S. Redinger

By Barber B. Conable Jr.

WASHINGTON — Disturbing economic trends cast shadows over this year's annual meetings of the World Bank and International Monetary Fund. Economic growth in the industrial countries continues at a low level, real interest rates remain high and commodity prices remain depressed. Trade barriers, massive payments imbalances and volatile currencies have weakened the economic recovery that began in 1984. And debt burdens continue to undermine economic growth in developing countries.

Without coordinated international action to reverse these trends, per capita income, consumption, imports and investment in most developing nations in 1990 will be well below the levels of 10, even 25, years earlier. It will be disastrous in both economic and human terms if per capita consumption in sub-Saharan Africa falls below its 1965 level and per capita investment in the highly indebted middle-income countries is reduced to 60 percent of what it was in 1980.

Such a disaster would cross international borders and afflict the terms of trade and domestic economic growth of the developed countries. In short, if these trends continue, the world faces eventual recession.

Against this unhappy prospect, there is at least one encouraging development. Many governments in developing countries are beginning to move away from rigid, closed and inefficient economic systems toward freer, more open markets and fewer price-distorting internal subsidies.

In Nigeria, for instance, policy reforms are helping reduce dependence on oil for export earnings. In China, greater incentives have been provided to farmers. Mexico is improving the performance of public enterprises and reforming its trade policies.

These adjustment programs, which the World Bank has supported with advice and financial assistance, are born of necessity, even desperation. But they direct nations toward greater efficiency and they help make them stronger international competitors and better credit risks. At the same time, adjustment can impose heavy social costs. Tangible results and perceptible speed are necessary to mitigate short-term economic disruptions and political upheaval.

While the boldness of these nations' leaders and the patience of their citizens serve as positive examples to all policy makers, the process of adjustment is far from complete and its success is far from assured. Success also depends on the willingness and political resolve of the industrial nations to adjust their own policies and practices to global realities.

The developed countries must take concerted action to assure significant, steady and non-inflationary expansion of economic activity. The rising tide of protectionism must be reversed. Urgent and imaginative measures to lighten the burden of debt service are needed, especially for the most distressed countries in the developing world. And the industrial nations must provide substantial new flows of external finance to nourish the developing countries' economic reforms.

Adjustment is a two-way street. All nations have a common interest in mounting and maintaining a coordinated and vigorous response to today's economic crisis. And that response must include steps to promote freer trade.

Increased tariffs, defensive quotas, subsidies to exports and a maze of nontariff barriers are increasingly used to shield noncompetitive sectors from free trade. These devices are imposed frequently as "temporary" measures to permit adjustment and restructuring but too often become permanent fixtures on the global landscape.

The industrial countries are becoming more protectionist in a growing number of sectors after 25 years of progressive trade liberalization of everything but textiles and agriculture. They now have nontariff restrictions on 20 percent of their 1985 imports and maintain tariff rates above 10 percent *ad valorem* on 10 percent of imports.

TARIFFS on exports from developing countries to the United States, the European Community and Japan, remain higher than tariffs on goods that those buyers import from each other. The developed world cannot credibly encourage efficiency and competition abroad so long as it practices this degree of protectionism at home.

Expanding trade, stimulated by a decrease in protectionism, can be one of the main engines of global economic growth from which all nations benefit. The Uruguay *Round of trade negotiations, launched in* late 1986, provides the opportunity to roll back the recent protectionist measures. But much can and should be done urgently, outside of these negotiations, to liberalize trade pending the completion of the formal conference.

Free trade is essential to successful development efforts and so too are adequate financial flows to promote adjustment, investment, growth and the alleviation of poverty. The record of the past few years is disappointing. Measured in 1985 prices and exchange rates, financial flows last year were little more than half the total seen in 1980. The decline in private flows, particularly from commercial banks, has been especially

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Barber B. Conable Jr. is president of the World Bank.

Climate of Caution

What may have been possible in a bull market is no longer realistic

Boom Gives A Hangover To Markets

By Kevin Muehring

LONDON — A joke making the rounds of pubs in the City over the last few months has a number of pub drinkers trading a can of sardines to pass the time. They start at £1, the price quickly rising to £1.10 and £1.25, then spiraling up to £3, whereupon a hapless end buyer suddenly stops the game, opens the can and discovers that the sardines taste positively dreadful.

"Well, what did you expect," says one of his fellow traders, "They were for trading, not eating."

There are probably dozens of bankers and even more fund managers who feel they, too, have been left with the sardines over the last six months of market upheaval. The bottom end of the decline in interest rates was severely tested this spring and summer, marking what many believe is the end of the great bull run of the last five years.

A collapse in the perpetual sector of the floating rate note market early in the year, for instance, was soon followed by a downturn in dated FRN paper. A dramatic reversal in the fixed-income markets in April was repeated in August. Trading losses and portfolio write-offs reached into the billions, especially among the Japanese life insurance companies. For issuers, strong investor resistance brought new issue volume to a trickle and yields higher through the summer.

New issue volume in the external bond market has exploded threefold since 1983, reaching $167 billion or more in 1985, according to the Organization for Economic Cooperation and Development.

In 1986, the new issue volume surged again, exceeding $726 billion. But this year, overall new Euro-issue volume dipped for the first time this decade. And the dollar Eurobond market, long the bedrock of the sector, fell to its lowest share of the new issue volume in the market's 25-year history.

In hindsight, it is apparent that a good chunk of the great volume of new paper flowing into the market since 1984 never really reached buy-and-hold end-investors, but was simply accumulated by the commercial banks looking for assets to replace their disintermediated loans

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The Debt Dilemma

Pressures Building For Debtors, Banks

By John M. Berry

WASHINGTON — The proposal by the Brazilian finance minister, Luiz Carlos Bresser Pereira, to discount his country's huge foreign debt by about 50 percent was quickly rejected earlier this month, but it underscored once again the enormous problem that such debts remain for creditor and debtor alike.

Brazil has made no interest payments on its bank debt, or that owed to several governments, for seven months, a fact that caused many large American banks to make major additions to their loan loss reserves in the second quarter. Brazil said it simply did not have the money to make the payments and, at the same time, keep its economy growing.

The proposal to discount the existing debt grew out of a growing feeling in Brazil that it has made all the internal sacrifices it ought to be asked to make in the form of falling income and investment in order to keep up payments on its debt.

Several weeks before the finance minister's visit here — during which Treasury Secretary James A. Baker 3d bluntly rejected his proposal — a group of Brazilian congressmen were in Washington floating the same idea.

The congressmen argued that the banks ought to recognize the market reality in which Brazil's debt was being traded in a thin secondary market at about 56 percent of face value. If the debt were written down accordingly, Brazil would have enough foreign exchange earnings to make the required payments.

After all, they said, the banks had made lucrative profits on their Brazilian lending in the past, and they questioned whether there

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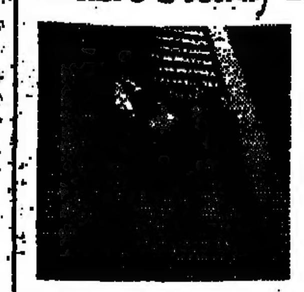
JOHN M. BERRY is a Washington Post reporter covering domestic and international finance.

INSIDE THIS REPORT



The Asian export boom now entering its third year has transformed economies in the Pacific region. But for banks active in East Asia, it has been a decidedly mixed blessing. Asia's economic strength is forcing banks to find new strategies to deal with the decline in the region's syndicated-loan market and the shift toward "securitized" debt.

U.S. Institutions Face Uncertainty

Most major corporations no longer turn to banks for loans

By John M. Berry

WASHINGTON — American banking is in turmoil and it is likely to stay that way for years to come. Regulatory changes, new competition from other U.S. *and foreign lenders and a long-term erosion* of profits on banks' traditional commercial lending business has left the industry facing an uncertain future.

In the short run, all these problems have taken a back seat to the enormous losses many banks have suffered this year on domestic energy and real estate loans and the more highly publicized loans to developing countries.

In the first half of this year, banks made such large additions to their loan loss reserves — a step that reduces earnings — that the roughly 50 banks with revenues of about $1 billion or more annually collectively lost nearly $10 billion. The Federal Deposit Insurance Corp. (FDIC) said it was the first quarterly loss since the Depression. In the first half of 1986, virtually none of these large banks showed a loss; this year about three-fifths of them did.

But the problems do not involve just big banks with large losses on foreign loans. About 200 banks are expected either to fail or require direct assistance this year from the FDIC, which insures deposits at commercial and mutual savings banks.

Earlier this month, the FDIC put up almost $1 billion to bail out First City Bank Corp. of Texas, which operates 62 banks across that state. First City had about $12 billion worth of assets, about 15 percent of which had turned sour, particularly some in energy and real estate.

Most of the failing banks are small and located in smaller cities and towns. The 10th Federal Reserve District, which covers a vast portion of the nation's heartland from Oklahoma north to Nebraska and west from Missouri to Wyoming and Colorado, has been particularly hard hit.

Dozens of banks have failed in the last *two years in this group of states, most of* which historically allowed little if any branching. As recently as 1980, Wyoming banks had the highest average return on assets of any state; last year they had sunk to 48th as the state's basic mining and agricultural industries remained depressed.

Officials at the Kansss City Federal Reserve Bank, which covers the district, expect only a small improvement in bank profitability this year, and if enough loans have to be charged off, profits could fall again, *according to Forest Myers, manager of the* bank's policy and special projects department.

In some cases, such as in Connecticut recently, a major merger was negotiated before the barrier came down and was announced immediately after it did.

Bank branching and a state's openness to institutions based elsewhere have been issues left to the states to decide, and Congress has continued to follow that line. But if many other pending regulatory issues are not addressed soon at the federal level, analysts expect that state authorities will begin to decide those as well.

Meanwhile, the problems associated with failing banks, and failing thrift institutions as well, continues to push state legislatures to drop barriers to interstate banking. A number of regulatory experts believe that within five years or less essentially all such barriers likely will be gone.

The first federal banking legislation to pass in five years this summer put a moratorium on any extension of new powers to banks until next spring. Congress is supposed to use the intervening time to resolve such questions as whether banks should be allowed to underwrite most bond and equity issues and the extent to which commercial corporations should be allowed to own and control banks that take federally insured deposits.

This year's legislation closed the so-called non-bank bank loophole. Because banks were defined in federal law as an institution that took deposits and made commercial loans, some commercial corporations — such as Sears Roebuck and Co., the retailing giant, and American Express-acquired banks — stopped making commercial loans, thus getting around the restrictions on ownership.

Advocates of opening up bank ownership, including former Citicorp chairman Walter B. Wriston, argue that careful oversight of banks by regulators would be sufficient *to prevent any abuse of the institution* even by a corporate parent that itself got into serious financial trouble.

Opponents such as E. Gerald Corrigan, president of the New York Federal Reserve Bank, think tne danger is too great and that a corporate owner in difficulty could find ways around any regulatory restrictions and tap the bank's funds.

Relaxation of restrictions on ownership might make more capital available to banks that sorely need it to offset some of the losses they have experienced, according to Mr. Wriston and others. And it might also make them more competitive in a variety of ways, they say.

The Hike in Loan Loss Reserves
(in billions of U.S. dollars)

Bank Holding Company	Assets	Loss	Addition to Loan Loss Reserves
Citicorp	194.4	2.6	3.0
Chase Manhattan	98.9	1.4	1.6
Bank of America	97.0	1.1	1.1
Chemical New York	78.4	1.1	1.1
J.P. Morgan	74.7	0.6	0.9
Manufacturers Hanover	73.8	1.2	1.7
Security Pacific	64.7	0.2	0.5
Bankers Trust	54.7	0.6	0.7
First Interstate Bancorp	51.8	0.5	0.8
Wells Fargo	44.7	0.3	0.6

Source: Company Reports

The problem is that many of the new activities they might undertake if regulators permitted are themselves not without risk. Getting into new lines of business takes startup capital, which the institutions might well use in other ways. Moreover, this is all taking place against a background of long-term erosion of the core business of banks: commercial lending.

Most major corporations no longer turn to U.S. banks for loans. Instead, they borrow directly in the capital markets using commercial paper, a form of corporate promisory note, and use a line of credit at a *bank or group of banks to back up payment* of the commercial paper.

MORE and more banks are providing such services for fees rather than making a profit on the spread between their cost of acquiring funds and the interest rate paid on loans. In addition, to the consternation of some regulators, a growing source of profits has been *gains on trading activities in foreign* exchange, government securities and similar markets.

While what was once their core business is shrinking, banks are also being hurt by new competition from a host of foreign banks and securities firms. These organizations have been willing to cut charges to the bone to gain a share of the American market, and the domestic banks trying to compete have had to respond accordingly.

The U.S. banks that are doing the best as a group these days are the "super-regionals," large, aggressive bank holding company operations in various parts of the country that have not been plagued by the foreign loan losses of the bigger money center banks.

If recent trends continue, say Senate Banking Committee staff members, this group could end up with half of all deposits in the United States within a few years. Their share has been growing at the expense of both smaller banks and bank holding companies and the money center giants.

However, the second quarter of this year was a hard one even for many of those banks, too. Nevertheless, among the 50 largest banks, they accounted for virtually all of those that showed a profit in the quarter.

According to Commerce Department figures, commercial and mutual banks — a grouping that includes thrift institutions — earned *$7.47 billion in 1986.* That was up from $6.76 billion in 1985 and far more than double the $3.08 billion earned in the recession year of 1982. On the other hand, the 1986 number was still well under the $8.58 billion that the industry made in 1979 before deregulation hit both the asset and liability sides of financial balance sheets.

And many analysts are worried that there are still a vast number of bad loans in bank portfolios that will eventually have to be written off. For all the additions to loan loss reserves in the second quarter, estimates are that the money center banks have set aside only enough money to cover about one-fourth of the value of their foreign loans, loans that are trading in many cases at 50 percent or less of their face value.

With U.S. interest rates again rising, there could also come a test of the creditworthiness of the corporations that have issued billions of dollars worth of debt in connection with mergers, leveraged buyouts and other forms of corporate takeovers.

This debt is in many financial institution *portfolios and defaults could raise a new set* of serious problems for the institutions. Rising rates will also make repayment more difficult for many real estate entrepreneurs, to say nothing of governments of developing countries already struggling to pay their foreign debts.

None of these problems is apt to be resolved soon, so the turmoil and uncertainty in banking will likely continue indefinitely.

New Plan Aims to Lessen Political Risk in Lending

By Vivian Lewis

WASHINGTON — Developing countries are again rolling out the welcome mat for direct investments after a decade and a half of shunning them. Suddenly, it is no longer done to berate multinational corporations for their supposedly nefarious influence in the Third World. The reason is the diminished attraction of no-strings-attached alternatives to letting foreign companies buy into a country's business.

These days, borrowing from banks, and trying to pay back with cold cash at a rate fixed without regard to domestic economic conditions or the results of a particular investment, has lost its appeal. Countries cannot repay. And banks cannot lend any more without refinancing the underperforming loans they already have to carry on their books or raising their capital to cover these Third World loans.

As a result, conversion of bank debt into equity is an idea whose time has come, if only a way could be found to do the trick.

One plan that will probably begin to operate sometime early next year is being put into place under the auspices of the World Bank. Called the Multilateral Investment Guaranty Agency (MIGA), it will go into effect as soon as five or more developed countries ratify its convention (it already has the requisite number of developing-country ratifiers.) So far, only Denmark and Japan have come on board, but there is a strong possibility that West Germany, the Netherlands and France will complete ratification this year. And the United States, too, may ratify soon.

MIGA is an international and broader variant of systems that exist in all Western industrial countries for providing political risk insurance to increase the attractiveness of investing in developing countries. *But it goes further than national plans like the* Overseas Private Investment Corporation (OPIC) of the United States or the 22 others run by developed countries, along with India and South Korea.

National systems often fail to match investor needs and only in Japan and Austria are more than half of direct foreign investments insured with the national plan.

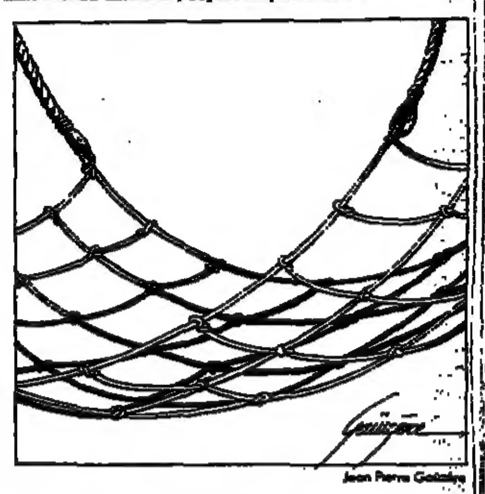
Furthermore, national insurance systems are undercapitalized in most cases. And unlike MIGA, they are intended as much as a way to help investor companies as the developing country that is the host.

MIGA, in contrast, will only insure projects for which it can find a clear developmental interest for *the host country. But that is not to say that its* insurance is not a very good thing indeed from the point of view of the investing company. A sign of this is the great interest being shown by international oil companies in the MIGA plan, according to World Bank officials.

MIGA will improve conditions for foreign investors. First of all, investment is defined so as to include categories not normally covered by national systems — not just taking a shareholding, but also equity-cum-loan plans, as long as the foreign investor has management control and earns a return related to results. This means that production and profit-sharing contracts, franchises, licenses, leasing some turnkey contracts and even some debt investment is covered.

Secondly, MIGA is flexible as to what "new" *investments it will cover, and probably, according to* Jürgen Voss of the World Bank, will be able to cover debt newly converted into equity. Banks will be able to insure return on loans refinanced by taking interests in facilities in debtor countries.

Most importantly, *MIGA will broaden coverage of* the risks foreign investors run. It will cover not just the risks of war, but also armed conflict and civil unrest, riot and, in some cases, unrest by students or unions or terrorism directed against the foreign investor. It will not just insure against expropriation, but also against "creeping expropriation," which MIGA has defined as a series of host-country measures that in their combined effect is expropriatory, like a combination of new taxes, customs duties, minimum wage increases and training requirements that would make a project unprofitable.



It will cover not just the risks of currency inconvertibility, but also the transfer risks resulting from government restrictions on converting currency.

MIGA has special clauses defining as foreign investment the return home of *flight* funds in fact owned by nationals of developing countries. To help persuade them to bring their money home, they will benefit from insurance as if they were foreigners.

Most importantly, MIGA is pioneering insurance against breach of contract, on condition that there is no arbitration panel independent of the host country to which the unfortunate investor can appeal or whose ruling he can get enforced within 90 days.

MIGA can begin operating as soon as a sum roughly equivalent to $360 million has been subscribed by its members, with its initial insurance guarantee amount limited to one-and-a-half times subscription. If all World Bank countries that have *signed but not ratified the convention do so, it will* have about $1.5 billion to cover. No country risk may take more than 5 percent of the whole.

MIGA will not, therefore, be able to solve the world debt crisis by itself. But its regulations would allow it to increase its underwriting ceiling to a total of five times subscriptions by a majority vote, giving it a respectable war chest of $5 billion or so.

VIVIAN LEWIS is a Washington-based financial journalist.

Adjustment: A Shared Burden

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The surplus economies in Europe and Asia must be stimulated to achieve greater growth while containing inflation.

severe. In current dollars, the 1986 level was only about $26 billion, compared to $66 billion in 1980.

Many of the highly indebted, middle-income countries have become net exporters of capital to the industrial countries. And this is taking place just when they urgently need to expand domestic investment to secure growth. For the low-income countries, the picture is also a bleak one. Official development assistance from all sources fell in 1986. Concessional flows last year were barely above 1980 levels in real terms.

The World Bank and other multilateral institutions cannot by themselves compensate for these shortfalls, even after increasing net disbursements to the heavily indebted middle-income countries by 50 percent as the bank did in the last 12 months. The World Bank is ready to assume greater responsibilities and risks and we will soon be seeking a general capital increase to permit further growth in the bank's lending program.

We are pleased that the donor nations agreed to provide the bank's affiliate, the International Development Association, with $12.4 billion over the next three years to secure concessional flows to the very poorest developing nations. This is only a partial success, *because still more concessional* finance is needed for these nations. We are, however, attempting to reach a consensus among creditor nations on a program of debt relief and growth-oriented import financing for the most distressed low-income countries.

We are also encouraged by the support by the international community for our work in striving to secure greater private investment flows to developing countries, notably through the bank's affiliate the International Finance Corporation. Our efforts on this front can be strengthened by the launching of the Multilateral Investment Guarantee Agency that we have proposed. Much more needs to be done to stimulate private direct investment to the Third World.

The reality on the eve of the annual meetings is that the global community faces the prospect of dangerously slow economic growth in the developed nations and further regression in the developing world. Everyone knows what must be done. Further adjustment is needed in the developing countries. In the industrial countries, commitment to adjustment, to more open trade and increased resource flows, is vital, needed to strengthen their own economies and those of the rest of the world.

More specifically, we need to see the currencies of the strong economies stabilized. The surplus economies in Europe and Asia must be stimulated to achieve greater sustainable growth while containing inflation. Innovative debt relief for the most distressed countries and new capital flows to developing nations from both public and private sources must be provided. Global trade must be liberalized. Budget deficits need to be reduced, especially in the United States.

This is a formidable agenda, but not one beyond our reach. It demands that we move together on all fronts in joint, shared and persevering action. Much of the discussion at this year's annual meetings will be based on this agenda. The common interest of all nations in regaining economic momentum can be a unifying force transforming proposals into action.

Latin America Steps Up Demands for Debt Relief

By William A. Orme Jr.

MEXICO CITY — Want to buy some used Latin American debts? The discounts get steeper every day. Peruvian and Nicaraguan paper can be had for less than 10 cents on the dollar, and even the relatively blue-chip loans owed by Venezuela and Chile have fallen from 70 cents to 60 cents since May.

The market's cold-eyed view of the Latin American debt's real value has spurred a growing trade in debt-for-equity swaps. Investors buy and then retire discounted debts through the auspices of the debtor government in exchange for bargain-priced local currency.

"Debt swaps are not a panacea that will cure the debt problem," Francisco Suarez Davila, Mexico's deputy finance minister, told a group of bankers that gathered here this summer to discuss the mechanism.

Increasingly, the big Latin debtors are arguing that they should not be forced to pay full commercial interest on foreign loans. Interest payments are absorbing half their foreign income, they note, yet the debts have long since been drastically devalued in the real world of the market.

Argentine's finance minister, Juan Sourroille, a champion of fixed below-market interest rates, is trying to persuade his Brazilian and Mexican counterparts to demand debt relief jointly. Smarting from an election defeat at the hands of the Peronists last month, President Raul Alfonsín's government believes it can no longer afford — politically or financially — to maintain the full servicing of its $54 billion debt.

The so-called "Big Three" of the Latin debt scene, Argentina, Brazil, and Mexico together owe creditors some $265 billion. But the three are already pursuing widely divergent strategies, making a common negotiating front difficult. Argentina and Brazil, pinched by shrinking trade surpluses, are defying the fiscal demands of the International Monetary Fund. Mexico, its debt newly rescheduled and suddenly flush with cash, is complying with IMF conditions and basking in creditors' praise. Brazil, the biggest debtor, has unilaterally stopped interest payments and rejected proposals for another massive Mexican-style renegotiation. Argentina and Mexico publicly reject the moratorium option.

Five years have passed since bankers were jolted by the devastating news that Mexico had stopped amortizing its foreign debt, the second biggest in the world. Jesús Silva-Herzog, then the country's finance minister, at the time delicately termed Mexico's dilemma "a cash-flow problem."

Since then the cash flow to virtually all of Latin America has ebbed to a trickle of involuntary bank loans and erratically fluctuating export earnings. The crisis has condemned governments to an endless cycle of rescheduling negotiations and pushed per capita income back to the levels of 1970.

A few weeks ago, speaking to Mexican university students, Mr. Silva-Herzog — who left the government last year in a policy dispute — acknowledged that he had erred in viewing Mexico's problem as a temporary liquidity squeeze.

"I confess that we were mistaken," he said. "It was neither a liquidity problem nor short-term, but rather one with deep structural roots in our economy."

> Governments have been condemned to an endless cycle of rescheduling negotiations.

Similar profound structural problems have been acknowledged since then in most of the region's economies. But Mr. Silva-Herzog and other Latin American finance ministers can be understood for seeing the 1982 crisis as a circumstantial difficulty created by an unusual convergence of events.

Mexico's troubles, as well as those of Venezuela and Ecuador, began with a 1981 oil price slide that was compensated with new borrowing rather than budget-cutting. Then, in April 1982, the Falklands War erupted, triggering a freeze of Argentine accounts in London.

Creditors refused to roll over debts to Brazil, Mexico and other big customers that were once routinely rescheduled. In the past five years, nearly all the commercial funds loaned to Latin America have come as "involuntary" contributions to multiyear rescheduling agreements.

The loans were approved largely to ensure the continuation of interest payments on previous debts. Latin American leaders, in conferences ranging from Quito to Cartagena to Mexico City, began demanding radically eased repayment rules.

In the latest of these meetings, the presidents of eight of the largest Latin American debtor nations — Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela — are scheduled to confer in Mexico City in late November. There will be two main items on their agenda: Central America and the foreign debt.

And, as will be noted, the two issues are not unrelated. The $17 billion debt owed by the five Central American countries to foreign banks is an under-appreciated aspect of the area's political crisis, governments there concur.

Demands for debt relief will be issued from Mexico City, but unified action among the debtors appears unlikely. Already this year Mexico has been visited by the presidents of the three other largest Latin American debtors: Argentina, Brazil and Venezuela. Yet the presidential meetings did not produce any concrete agreements to coordinate debt strategy.

"We have gone as far as we realistically can, given the present complex circumstances, in what are considered the most advanced debt negotiations on the international scene," President Miguel de la Madrid of Mexico said in his annual state of the nation speech on Sept. 1.

"The process of renegotiating the foreign debt has not ended," he added.

Another recent visitor to Mexico was President Alan García Pérez of Peru, who was lauded by leftist politicans but scorned in pro-government media as a "demagogue." Peru's unilateral limitation of payments to 10 percent of export earnings was condemned as irresponsible by Mexican officials speaking off the record.

Latin American officials have directed their debt complaints toward leaders of the industrialized world, calling for, in Mr. de la Madrid's words, "a sharing of responsibilities between debtors and creditors." So far, they have been disappointed with the response.

If creative new solutions to the debt crisis should emerge, the precedents will almost certainly be set in Mexico and Brazil, many experts believe.

Stuart Goldenberg/The New York Times

Mexico's next government is expected to start new rescheduling talks when it takes power in December 1988. Yet many experts say another conventional multiyear, multibillion bailout would be rejected by Mexico and its creditors alike.

"Banks in Tokyo and banks in Europe are simply not going to come up with that kind of money again," a Japanese banker said. "We don't like the idea of debt relief, but some kind of new servicing plan is probably inevitable."

With Mexico's debts traded internationally at half their face value, some officials say the government should discretely re-purchase its debts through intermediaries or demand interest-rate concession reflecting the discount.

"In the next round of rescheduling we have to find a way to use the secondary market discount to our own financial advantage," one experienced Mexican negotiator argued. "Foreign investors are profiting from the discounts with swaps. The banks and their investors recognize the debts' real market value. We are the only ones who are forced to pretend that they are worth 100 cents on the dollar, and it is costing us a fortune."

In the most innovative renegotiation proposal yet advanced by a major debtor, Brazil is now demanding the complete elimination of bank profit margins and is refusing to seek IMF approval for its economic program.

Most radically, it is also asking banks to voluntarily convert half of the country's $70 billion commercial debt into long-term bonds. The 35-year bonds would pay commercial interest and represent 75 percent of the debt's face value — considerably more, negotiators point out, than the 50 percent that Brazilian paper fetches on the secondary loan market.

Brazilian negotiators have alternatively suggested that some loans could be turned into bonds honoring the debts at full value but carrying low fixed interest rates. In addition, to facilitate the cumbersome process of negotiating with more than 600 banks, Brazil is willing to convert debts into "exit bonds" on more favorable terms for hundreds of smaller creditors who have only tiny shares of the overall debt.

Foreign banks — led by Citicorp, which boosted its cash reserves earlier this year to strengthen its bargaining position with Brazil and other big borrowers — are fighting Brazil's plan.

Debt relief plans would in the long run discourage essential private lending to Latin America, argue Washington's envoys to the region. "Foreign loans have to meet the same requirements as any other loans that a bank makes," said the U.S. ambassador to Mexico, Charles J. Pilliod Jr. "The bank has a responsibility to shareholders. They have to get a return on their investment. The funds that are being supplied to foreign governments come from pension funds and individual investors, not the government. There is no free lunch in borrowing money."

The solution to the problem, U.S. officials contend, is for sovereign borrower nations to maintain their credit ratings and invest loans more productively.

"I think it is naive to think that large governments are going to reduce their debts to any great extent," Mr. Pilliod said. "That doesn't happen anywhere in the world. What we try do is attain a growth rate that is higher than the debt rate and obtain a better ratio in regard to gross national product."

WILLIAM A. ORME Jr. contributes to The Economist and The Washington Post from Mexico City.

Debtors, Banks Face Pressures

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may not have been irregularities associated with some of the loans.

In any event, the congressional group said, the economic impact of further restraint designed to allow full payment of interest on the debt was not a political possibility. Since their visit, the bid price for Brazilian debt has dropped below 50 percent.

Unlike the Brazilian case, debt restructuring agreements were reached earlier this year between the banks and the Mexican and Argentine governments, the other Latin American countries with very large debts.

However, the example of Brazilian nonpayment of interest is sparking new calls in those countries for easier terms from their creditors. Recent electoral gains by an opposition party in Argentina has bankers worried that a demand for concessions could be in the works.

The banks have a right to be worried. The second quarter additions to loan loss reserves was the major factor in causing losses of nearly $10 billion at about the 50 largest American banks in the first half of the year.

If Brazil and other major Third World debtors were to obtain a 50 percent write-down in the value of their loans, it could force the U.S. government to bail out the banks, most of which are so large that banking regulators feel they could not be allowed to fail.

Even in the short run, the Brazilian example is causing the banks new problems. To offset some of their losses, a number of them, including Citibank and Manufacturers Hanover Trust Co., are planning stock offerings, the prospects for which were not helped by Mr. Bresser Pereira's proposal.

A number of close observers strongly feel that, one way or another, a portion of the debt will have to be written down and that the banks will have to absorb significant losses. Some of the reasons were highlighted in the annual report of the Inter-American Development Bank released this month.

"The Latin American countries have managed to survive the strains of the five-year-old debt and economic crisis of the 1980s, but in many of them falling living standards have begun to threaten both political and economic development," the report said.

In 1986, it continued, regional gross domestic product rose 3.8 percent, and 1.4 percent on a per capita basis. However, per capita GDP fell in half the countries last year and only three of them — Brazil, Colombia and Panama — had a higher per capita income in 1986 than in 1980. "For 13, GDP per capita was at least 10 percent lower in 1986 than it had been in 1980. In seven, it was more than 15 percent lower, and four of those lost more than 20 percent," it said.

The region's trade surplus has gone down as economic growth slowed in industrial nations. With little prospect of more rapid growth in the industrial world, there is no reason to expect that surplus, and the foreign exchange earnings that go with it, to rebound.

That means that the only real source out of which debt service can be paid is a further reduction in domestic consumption and investment. At some point — and some U.S. economists, such as Rudiger Dornbusch of MIT, believe that point has already been reached — sharp cutbacks in investment and declines in real wages will reduce the debtor nations' capacity to produce so that they will be less able to pay their debts rather than more able.

FOR EXAMPLE, gross investment, adjusted for inflation, was 30 percent lower in Brazil last year than it was in 1980. In Argentina, it was 52 percent lower, and for the region as a whole it was down 33 percent.

If it turns out that the debtor nations as a group are either unable or unwilling to service their debts, then someone will have to record more losses. The large money center banks that hold the bulk of the debt are much more well capitalized than they were in 1982 when the debt crisis struck. Essentially their capital has gone up while their exposure has declined.

But part of that decline has come as a result of a virtual absence of new lending, which was supposed to be a key element in Mr. Baker's plan for resolving the debt issue. Under that plan, the debtor nations were supposed to make changes to improve economic efficiency while the banks stretched out debt repayment schedules and provided new money to help pay for essential imports. Some of the economic changes have been made, but Reagan administration officials say many more steps need to be taken.

Now that interest rates have begun to rise in the major industrial countries, the burden of debt service in Latin America will be going up, too.

There is no new equivalent of the Baker plan in the works because no one has the necessary resources and willingness to fund it. That, and the economic realities confronting the debtor nations, mean that the debt problem will remain for years to come and that it could flare up again into a full blown financial crisis.

ADB Becomes Premier Source of Credit

By Fiametta Rocco

LONDON — When the Organization for African Unity confirmed earlier this year that it was planning a heads of state summit meeting on African debt, Babacar N'Diaye had reason to be well pleased.

For this is a subject dear to the Senegalese president of the African Development Bank (ADB), and Mr. N'Diaye has long advocated just such a meeting.

Not only is the summit, which will be held in December, valid proof that African governments are finally showing a hitherto unknown willingness to tackle their debt repayment problems, but it is a measure of how strong the ADB's voice is becoming on the continent's political-economic stage that the conference is taking place at all.

Established by a group of newly independent African countries in 1963, the ADB has since become Africa's premier source of credit, with 50 African members and a further 25 from the industrialized world. In structure, it is a sort of mini-World Bank that finances development projects in most African countries and offers soft financing to the very poorest among them.

By the end of last year, the ADB had approved around $10 billion worth of loans, including $4 billion in interest-free credits from its soft-loan arm, the African Development Fund (ADF). The fund is financed by contributions from the bank's non-African nations, and the bank's operations are funded by a mix of capital input from its 75 members and loans raised on the major capital markets where the bank's senior debt enjoys the same blue-chip rating as the World Bank.

Babacar N'Diaye. Reuters

With a new capital increase completed last June, the bank that Mr. N'Diaye has headed since 1985 now finally has the muscle to make its voice heard, not only in Africa but outside too.

In June the ADB tripled its capital to more than $19 billion, and it expects to double its lending rate for the period 1987-1991 to a total of $10.2 billion. A replenishment of the ADF, due before the end of this year, should boost lending by another $7 billion over the same period.

Lending has already increased dramatically, with a 42 percent increase in 1986 alone. And over the next five years the ADB will become one of the biggest donors to the continent, with only the United States and the World Bank making higher contributions.

Nonetheless, Mr. N'Diaye's task in the remaining three years of his presidency is far from over.

His main challenge at the outset was twofold. First, he had to reorganize the bank into a structure that would be strong enough to handle assessing an increasing number of projects and their follow-up in 49 different countries — Libya is the only country not to take ADB loans. Second, he had to re-evaluate the nature of the bank's lending to incorporate a greater proportion of economic structural adjustment finance as well as more loans for reconstruction and rehabilitation rather than the simple financing of new projects that had been the bank's only task previously.

The former is now well on the way to completion. A number of new appointments have been made, including that of the Swiss-American banker Milan Kerno, formerly of Dean Witter Capital Markets, as vice president in charge of finance. Mr. Kerno is the bank's first non-African vice president.

The operations side of the bank, which had come under tremendous pressure as loan volumes mushroomed, has been split into three regional sections covering east, west and central Africa. The disbursement of loans, a major bottleneck in the past, is also being speeded up with the establishment of a separate department and a computerized procedure for loan administration, as well as a separate office for evaluating projects while in operation.

The loans disbursement office will also be responsible for debt collection as arrears to the bank on loans as well as subscriptions have become a major headache. At mid-1987, there were 27 countries to which disbursements and the granting of new loans had been suspended because repayments were more than six months in arrears.

Loan arrears total $40 million, of which half are accounted for by Liberia. Sierra Leone, Guinea-Bissau, Comoros, Sudan and occasionally Zaire and Congo are also often late payers. And a further $60 million is owed by the bank's African members on subscriptions.

The last ADB annual meeting in Cairo in June also saw the endorsement of a new lending program, which, for the first time, approved non-project financings. The concept of funding economic rehabilitation or restructuring programs is not new. It has already been refined both by the IMF and also the World Bank.

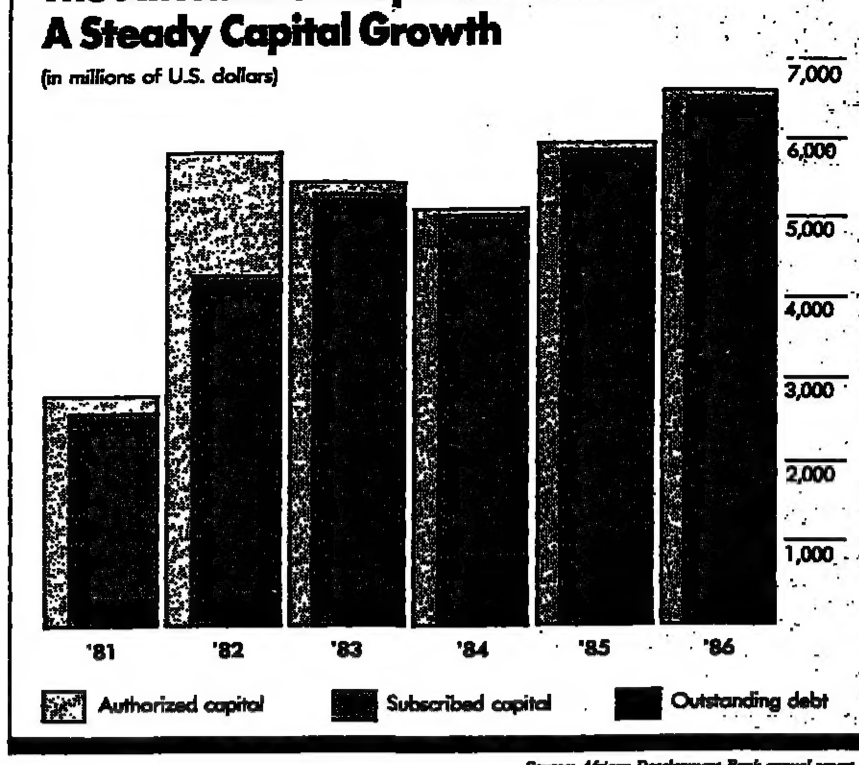
However, for the ADB, it has always remained a highly charged proposition as it must involve a measure of stick-waving by the bank over its own members. It is very difficult for the ADB to advocate precise economic policies to a group of nations whose politics range from Marxist to rightist military regimes.

Nonetheless, Africa's increasing need for extra funds to strengthen government administration rather than pay for new dams and power lines is now seen as paramount. And the bank is slowly feeling its way into this less well-defined area of development finance.

The fact that the ADB is considering non-project finance at all is a measure of the difficulties that many of its members are encrusted in. Only with this kind of financing to improve their general economic machinery will African nations find a way to pay their debts which increased by more than 30 percent between 1982-1986 to $162 billion.

The African Development Bank: A Steady Capital Growth

(in millions of U.S. dollars)



Source: African Development Bank annual report, 1986

The debt conference that Mr. N'Diaye has long been calling for will, it is hoped, provide the political impetus necessary to finding a solution to the debt situation.

And the bank hopes to use the voice it now has in African economic circles first by sponsoring another conference in London early next year that will debate technical ways of finding that solution, and then by increasing its contribution to the continent and improving the quality of its loans to its African member countries.

FIAMETTA ROCCO is a financial journalist based in London. She is the author of "African Development Bank: Financing Growth to the 1990s," published in 1986 by MEED Ltd.

Debt Crisis Leads to Major Shift in Lending Policy of World Bank

By Francesca Carnevale

LONDON — Fundamental changes in the operation of development banking are affecting not only the type of funds secured by developing countries. They are also affecting the geography of the loan portfolio of the foremost development bank, the International Bank for Reconstruction and Development (the World Bank).

These changes are not just affecting the administration of funds; they are also calling into question the overall development strategies pursued by the World Bank and its affiliated regional development banks.

When the concept of development banking was brought into being after Bretton Woods, the overriding concern of the World Bank's policy makers was the regulation of capital flows to underdeveloped regions.

Proper capital management, it was held, would stimulate development and spur trade. The provision of funds was confined to the support of micro- and macro-infrastructural projects that could not attract commercial finance from international banks.

As the difference between rich and poor nations increased between 1950 and 1975, World Bank and development bank lending increasingly concentrated on the provision of funds to support balance of payments finance and large-scale projects, some of which were partly supported by commercial funds as well. The emphasis was still on development rather than wholesale alteration in the structure of developing economies.

Dependence on aid and development funds increased, and still the basic problems of inefficient economic management of less developed economies were never solved. Something had to change. And given the reticence of donor nations to come to terms with the real problems facing the developing countries in the post oil crisis years, it was inevitable that change would be introduced quietly.

In the mid-1980s, the policy climate within development banking has never been farther from the original intentions of the function of a development bank. The name of the game is now containment, rather than development. The root cause of the change is the growing debt crisis. And funding is increasingly being pushed to the private as well as the public sector.

This trend has been moving apace in the last five years as the exposure of the World Bank has increased in some regions, notably Latin America and Africa. It has declined in others, specifically the Asian heartlands and the Far East.

This alteration is a function of the increasing dependence on locally based development banks, such as the Asian Development Bank, which have assumed the responsibility of providing project finance and services, which were once the exclusive domain of the IBRD.

It is also a result of a growing realization by World Bank policy makers that the bank should play a larger role in debt alleviation through catalytic policy-based lending. But this change cannot hide the fact that the role of the World Bank is contracting as its contribution to net cash flows of developing countries steadily decreases.

Loan approvals have been rising: from $11.3 billion in 1985 to a likely $15 billion in 1987. Yet, say World Bank sources, actual disbursements have been static for the past three years. Meanwhile, repayments of existing loans have been rising. Repayments totaled $3.8 billion in 1986, leaving a net transfer of $4.5 billion, which is roughly equivalent to the interest and fees paid by borrowers to the bank.

The growing debt priority of the bank's lending function will, in the interim, mean a decreasing role for the agency in selected regions. The bank is expected to decrease its role in Asia which, relative to Africa and South America, does not suffer from a significant debt problem. East Asia and the Pacific have historically borrowed on roughly the same level as South America, but in the 1985-1986 financial year the region received $3.1 billion in loan approvals compared with $4.5 billion for South America.

Case by case studies of the Asian borrowing profile, in fact, illustrate a mixed bag. South Korea, for instance, remains a large borrower although its net disbursements are now small as it has largely repaid its outstanding loans.

Thailand, meanwhile, has specifically opted to reduce its reliance on the World Bank with only $93 million in borrowing in 1986. Malaysia, on the other hand, is moving to increase its borrowings. Although the overall trend may be understandable, it carries the implication that the ability to use funds efficiently for development in specific regions is declining in importance within the bank's scheme of things.

Asian perceptions apart, the most global contribution of the bank is underlined by the fact that its soft-loan affiliate, the International Development Association, is contributing as much to international capital flows as its parent. Last year, IDA disbursements were $3.5 billion and repayments negligible.

The only part of the World Bank that generates a feeling of optimism is the private-sector and equity-oriented International Finance Corporation (IFC). It is not stepping up its rate of investment but is proving a catalyst to the developing securities market and debt/equity swaps.

The bank's policy is noticeably gearing toward policy rather than project finance. Structural adjustment lending is the most dynamic growth area in the bank's activities. In 1986, $3.1 billion was committed to this form of policy lending, making up 19 percent of the bank's total hard and soft loan commitments worth $16 billion. Bank officials expect the proportion to rise to well above 30 percent in the next three years.

Structural adjustment loans are designed to meet a nation's foreign exchange expenses during periods of infrastructural change and policy reform; although the bank currently makes no distinction between the macro and the micro level in its lending criteria.

This type of lending differs fundamentally from normal development bank lending. Loans are not tied to specific projects, they are disbursed quickly (usually between 12 and 24 months), and they are strictly for import purchases. Most importantly, they are going to heavily indebted countries that otherwise present few export opportunities.

Over the next four years, about $15 billion worth of World Bank lending is expected to be structural adjustment lending, and the leading recipient of funds is expected to be South America and the Caribbean.

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Middle East Restructuring

Arab Banks Weigh Moves Abroad

By Stephen Timewell

LONDON — Arab banks are struggling to find new directions at a time of recession and escalating political tensions in the region. Stable oil prices this year have helped to brighten prospects but a series of bad loan problems and major structural issues concerning capital, personnel and the overall banking environment continue to plague institutions, both big and small.

Middle East banks, like many others worldwide, can no longer rely on traditional commercial banking services for survival. Arab banks have been slow to adapt to the rapid pace of change in global financial markets, and in this post oil boom period many institutions appear to have no clear raison d'être.

The staple diet of syndicated loans and trade finance in the 1970s and early 1980s is not enough to sustain the banks into the next decade. In the midst of declining profits, many banks have undergone radical restructuring and new strategies have been advocated. Investment banking has been the theme of many new policies, but much remains untested and severe doubts exist as to whether some of the institutions have the products and the capacity to create viable new alternatives.

For the bigger banks, which developed their international presence in the 1980s, the question is whether to expand abroad or concentrate on domestic markets.

National Bank of Kuwait general manager, Ibrahim Dabdoub, said: "Changes in banking are now so quick that non-Western banks will find it difficult to cope — one constraint is the capital, because the cost of building an international communications network is very expensive. Because of this, we think some Arab banks will retrench to their home markets. These are limited, but there are many problems in international markets as well. So Arab banks should go back to basics and get them right."

Some banks are continuing expansion abroad. Earlier this month, Bahrain-based Arab Banking Corp. (ABC), one of the largest and most aggressive Arab institutions, bought a 25 percent stake in Union Bank of Bangkok, Thailand's 12th largest commercial bank.

ABC, which is owned jointly by the governments of Kuwait, Libya and the United Arab Emirates, said: "This important minority stake is a key part of ABC's strategy of expanding its retail banking interests."

The offshore bank has sought to develop a deposit base through international acquisitions, and the move into Thailand follows the purchase of 70 percent of Banco Atlantico in Spain in 1984 and 75 percent of Hong Kong's Sun Hung Kai Bank (renamed International Bank of Asia) in 1985.

This year two Saudi banks, the National Commercial Bank and the Saudi American Bank (owned 40 percent by Citibank), opened branches in London.

Recently, ABC's main Bahrain rival, Gulf International Bank, took a stake in a Singapore stockbroker, and last year the Paris-based Banque Arabe & Internationale d'Investissement (BAII) concluded its purchase of London stockbroker Sheppards & Chase.

While institutions such as ABC and the Arab-owned Bank of Credit & Commerce International (BCCI) *may continue to grow,* most others are likely to take a wait and see attitude and consolidate their existing international operations. Without the size and expertise to play a greater role in the global capital markets, the major Arab banks are likely to sit tight abroad, except in key areas such as Turkey where some joint ventures are expected to be formalized by the end of the year.

In the Middle East, the prospects for the offshore banks in Bahrain are grim and little better for the region's domestic banks. In Saudi Arabia, for example, the commercial banks undertook virtually no new lending in 1986 and have done little this year. The weight of bad debts in the corporate sector and the recession has brought the banks to a standstill in Saudi Arabia and in the other states too. The banks have been frustrated by the legal environment as much as by the economic climate.

The inability of the courts, especially in Saudi Arabia, to enforce obligations made to the banks has made a mockery of lending and the banking system generally. While the banking authorities acknowledge the problems, they seem powerless to provide a solution to the interest payments issue in the face of the religious prohibition against interest.

In March this year a Saudi royal decree was made establishing a three-man committee to settle bank disputes under the auspices of the Saudi Arabian Monetary Agency. The move was hailed as a significant step forward in banking reform, but six months later the committee has not been formed and progress seems unlikely in the foreseeable future. In the United Arab Emirates, recent legislation has helped clarify the interest issue for the banks, but throughout the region the lack of a suitable legal environment has stymied bank activity.

These legal and regulatory issues are also having an important impact on the development of capital markets. Some bankers suggest that Arab banks should move into securitized lending for quality sovereign and corporate risks in the region. The development of stock exchanges in the Gulf has been encouraged, but many legal and accounting questions remain unanswered and the proposed exchanges in Saudi Arabia, Bahrain, United Arab Emirates and Oman are still a long way off.

The lending crisis in the Gulf has forced banks to focus on new products and drawn attention to the liabilities side of the balance sheet. Gulf banks are now looking *closely at retail banking and developing* a greater range of basic customer services and investment products.

Most banks can now provide a variety of investment proposals, often linked to Western financial institutions, and through the growth of automated teller machines and branch networks provide considerably improved customer services.

The key factor in the problems facing Arab banks is personnel. The sophisticated international markets demand a level of expertise that is not readily available in the Gulf and is no longer easy to attract.

At present, Gulf institutions have reached an important crossroads. Many talk about investment banking but few, except Bahrain's highly successful Arabian Investment Banking Corp. (Investcorp), have developed a comprehensive strategy and have the expertise to be anything other than glorified commercial banks. Many banks are being forced to reassess their rationale and only those with a clear purpose and direction are likely to survive.

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Climate of Caution

After the Boom, The Hangover

Continued from page 7

and by the Japanese institutional investors. Both began to take increasingly short-term, trade-oriented views toward managing their portfolios, adding to the general volatility of the market.

None of the financial intermediaries, especially the commercial banks, were really prepared for the virtual explosion that has taken place in the international capital markets since 1984. Millions of dollars were spent by the commercial banks to build from scratch some capabilities in securities underwriting and trading while the securities houses, investment and merchant banks scrambled to handle the surging volumes and to spread their operations across the globe.

Many of the banks were apparently equally unprepared for the swift downturn that followed. Dozens of banks have had to rethink their global pretensions. Some dropped out of the race altogether, preferring a purely domestic role; others got out of primary market activity and settled for a more active sales and trading role; still others called it quits in trading.

But the element common to the dozens of banks that just a year ago were aspiring to the global big leagues is the growing realization that what may have been possible in a bull market is no longer realistic when conditions get turbulent and uncertain. Caution, rather than expansion, is the catchword of the late 1980s.

In the FRN market, for instance, where many commercial banks sought to make their mark in securities trading, there were 40 houses active during the market's peak around the turn of the year.

Now, however, there are effectively only five houses — all U.S. investment banks — left trading in all sectors of the FRN market. "American commercial banks are a very trivial factor in the market now," said William Watt, head of FRN trading for Kidder Peabody.

STREET INVENTORIES, which at one time stood at $1 billion plus at the big trading houses, quickly shrank once the market got too choppy. Inventories are perhaps a quarter of what they were a year ago.

"There is no longer the willingness to position inventories," said Paul Denisson, Merrill Lynch's head of FRN trading in London. "Even if we get bullish again, it would only be a third of its peak."

Perhaps with even greater potential repercussions to the long-term viability of the Eurobond market, the big-ticket fund managers found the market's liquidity amid the turbulence to be wanting, and increasingly found the more liquid, though lower yielding, domestic government bond markets more appealing to their needs. Billions of dollars under their management leaked out of the Eurobond market to the domestic markets, or at least less net new funds flowed into Eurobonds.

Financial houses also found innovative but complicated repackaged paper increasingly difficult to distribute as investors, especially retail investors, shied away.

"What the issuer called a window, a lot of investors discovered was a trap door," suggested Rudi von Eisenstadt-Rothe, who heads asset distribution at Chase Manhattan Bank in London.

The rippling effect of the market changes has uprooted the traditional lineup among the new issue lead managers. Nomura International easily brushed aside market leader Credit Suisse First Boston from its number one ranking.

The Japanese securities houses swept four of the top six rankings, kicking a number of American heavyweights such as Merrill Lynch and Swiss stalwarts such as Union Bank of Switzerland and Swiss Bank Corp. into the backwaters of the league tables.

The aspirations of the commercial banks to muscle their way into the upper tiers of underwriting, except for Deutsche, Paribas, Bankers Trust and Morgan Guaranty, look increasingly remote.

The upheavals in the capital markets have also altered the techniques used to launch new debt. The syndicates of banks participating in a new issue have become much smaller, polarizing into two tiers of the biggest, most powerful houses, currently dominated by the Japanese securities houses, and the much smaller, regional banks that profess to have a retail distribution.

The banks occupying the middle tier of players, where most of the commercial banks lie, are rapidly being squeezed out of the market. Reciprocity, in which the lead manager will cut another house in on a deal, now tends to focus around a smaller circle of powerful co-leads chosen for their ability to distribute a particular kind of paper.

The scores of banks in the middle tier that had participated as co-managers in any case were no longer so willing to accept invitations to deals. Issues thus have fewer market makers, potentially meaning less liquidity and a narrower distribution. For the lead manager, it means an issue is even riskier than ever when taken on his books.

"There is much more of a genuine syndicate risk now," said David Lough, managing director at County Nat West Investment Bank in London.

Adversary relations and distrust among the financial intermediaries in the primary sector underscores how the definition of success in syndicating a new issue continues to change and broaden.

Success used to mean an issue trading inside its fees during the syndication period. Now, it depends. Losses in syndication may mean profits somewhere else. Many of the American houses, for instance, tend to look at the whole product stream that only begins with launch — a gauntlet to run through — to reach the more profitable activity at the end of the relationship being developed.

"Maybe there will be an M&A deal at the end of the deal," said the head of a London office. A strong secondary market house may come in on a loss-making deal simply to become better informed on where the original bonds are flowing.

Bernhardt Gadow, deputy manager director of the Long-Term Credit Bank's investment banking arm in London, noted that the Japanese houses have long looked at the primary league tables as an expensive marketing tool to develop relations with Western corporate officers.

> Dozens of banks have had to rethink their global pretensions.

"We just bought $20 million of your FRN, and we love to do business with you," Mr. Gadow said. "A lot of the Japanese houses are going for tombstone position not just to build league table position, but to have an excuse to see the borrower."

The net effect of these differing objections, coupled with the sheer domination of the Japanese securities houses, has translated into an almost total absence of profitability in underwriting and even lead managing straight debt issues. To compensate for this loss, the banks have had to rely increasingly on trading and turnover to cover their overhead. And this year that, too, became immensely difficult.

The only way to ensure a decent return this year has been in picking up a slice of equity deal flow that is surging through the markets. Transborder, Euroequity offerings, convertibles issues for American corporates, or bonds with equity warrants attached issued by Japanese issuers have been extremely profitable for houses such as CSFB, Morgan Stanley and the Japanese securities houses that hold the lion's share of the market.

"We are trying to be more in equity instruments," said Takeo Soma, the managing director of DKB International, formerly Dai-Ichi Kangyo Bank International, reflecting a feeling shared by almost every house not already reaping the benefits of being there first.

FOR BORROWERS, the changes wrought in the international markets and among the financial intermediaries means it can cost so much more now to raise large amounts of debt that the other capital and credit markets, such as syndicated loans, are becoming more attractive.

Borrowers can also straddle both the credit and capital markets by launching a fixed-income issue priced to yield enough above similar maturing U.S. Treasury paper that it is largely "asset swapped" back into the portfolios of commercial banks.

Asset swaps, which are simply swap techniques applied to the asset side of an investor's balance sheet rather than the liabilities of the borrower, has mushroomed to nearly $30 billion this year, according to market estimates.

Asset swaps in a way are "reverse securitization," in that the paper is illiquid and not marked to market every quarter. At least 80 percent of the asset swap paper is finding its way into the portfolios of the commercial banks wholly willing to sacrifice liquidity for a locked-in yield usually a healthy margin over their own cost of funds.

Whether the turbulence in the capital markets this year portends a return to the previous era of "classical" commercial banking dominance of the financial markets is perhaps too far-fetched at this point to suggest.

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A branch office of the State Bank of India.

India, Pakistan: Different Routes

By Richard M. Weintraub

NEW DELHI — Forty years after winning independence from Britain, India and Pakistan have developed mixed economies but nationalized banking systems that are subordinate to major social goals. Like much else in these two neighboring South Asian giants, differing social systems have created equally differing institutions.

If two themes dominate in the subcontinent today, it is India's drive to create a vast rural-based network of banks dedicated to uplifting the poor and Pakistan's shift to Islamic, or non-interest based, banking.

In India's case, the banking revolution is almost 20 years old and is going through a difficult test of credibility. In Pakistan, the shift to Islamic principles is barely under way, having begun only a couple of years ago.

When India's leading banks were nationalized in 1969, they were bunched in urban areas and primarily served the big industrial houses and trade concerns. For the 80 percent of the population that lived in rural areas and made its living off the land, banking consisted of savings in the form of gold bangles and bracelets and recourse to the local moneylender for borrowing at exorbitant rates.

In the decade and a half from June 1969 to September 1985, the total number of branches of commercial banks in the country increased from 8,262 to 52,013, and the average population per bank office dropped to 13,000 from 65,000.

Small farmers, artisans, rural businessmen and others who previously had recourse only to the underground moneylender now could turn to the national banks, and usually at concessional rates. Not only were banks required to establish rural branches, but they were required to place 40 percent of their loans in special categories.

"We are not bankers, we are arms of the finance ministry," said one Indian banker recently. "Bankers don't have any discretion on who gets loans or even at what interest rate. It is all prescribed."

Government officials point with some pride, however, to estimates that 50 percent of rural loans now being made at low concessional rates, compared to almost 90 percent from moneylenders at rates as high as 100 percent or more annually. In addition, there are more than 22 million borrowers today, compared to only a quarter of a million two decades ago.

Nevertheless, the size of the underground economy remains high — in 1985, it was estimated at $28.5 billion — and the system clearly has had trouble coming to terms smoothly with its new size and new role.

Put simply, the banks are not getting their money back. The Reserve Bank of India, the central bank, put the recovery rate for rural loans in 1983 at 53.2 percent and that dropped to 51.6 percent a year later, and these were years of good harvests.

More than $6 billion in rural loans were outstanding in 1985 and this is expected to rise to $14 billion in 1990. The problem is clearly a major one and is reflected in falling bank profits.

One exception to the low profitability picture in Indian banking are the operations of foreign banks. Since they are limited in the number of branches they can have and are located mainly in major cities, their loan operations are more secure and their merchant banking operations increasingly profitable.

As India tries to get its system under tighter control, Pakistan is trying a new approach: Islamic banking. Publicly at least, bankers and businessmen indicate that they are adjusting to the idea of service charges, markups and profit and loss sharing in place of interest, which is forbidden in Islam.

In its pure form, the modern Islamic banker would be no different from the ancient merchant who bankrolled a caravan of camels, sent it to the desert to sell the goods and shared in the profits or losses when it came back.

"Islam prohibits interest and encourages trade and business. If you seek to 'loan' money, it can't be for more than the principal. If you want to gain, it has to be on a risk basis. If I have a surplus and give it to someone on a predetermined basis, that is interest. If I give it to someone under Islam, I must do it by profit-sharing, and loss-sharing," said a Karachi-based official who has had a significant say in the evolution of the new system.

In practice, most banking in Pakistan today is in a "halfway house," between a pure profit-loss system and the old interest-based system.

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Asia's Export Surge Proves A Mixed Blessing for Lending

By Robert Cottrell

HONG KONG — The Asian export boom now entering its third year has transformed many economies in the Pacific region, particularly those of the "four tigers" — South Korea, Taiwan, Hong Kong and Singapore. But for banks active in East Asia, it has been a decidedly mixed blessing.

The region's extraordinary economic advance has raised the quality of loan portfolios nearly across the board. But it has also made new loans more difficult to sell.

It has boosted local stock markets, raising the market capitalizations of listed institutions and making it relatively cheap for them to raise new capital — whether, like the Hongkong and Shanghai Banking Corp., which is now offering $800 million for full control of Marine Midland Banks Inc., for predatory reasons or whether, like most Japanese city banks, to meet rising capital ratio obligations.

But it has also hastened the decline of syndicated-loan business available in Asia and the shift toward "securitized" debt evident throughout the world banking system. Many banks in Asia, as a consequence, are now exposed to the challenge of either changing their approach to the region or abandoning it.

"If you expect to continue running a merchant bank on the basis of traditional tombstone loans, it's going to be difficult," said Kunho Cho, managing director in charge of merchant banking at Citibank International Ltd. "It's not necessarily going to be a smaller field, but it's going to look very different as time goes on."

With Japan now politically determined to stimulate economic growth through domestic demand, Asia's biggest export-boomers have been Taiwan and South Korea. As a result, some bankers' fears in 1983-1984, that South Korea might be emerging as "the next Philippines," too long on debt and too short on net foreign exchange earnings, now look to have been ludicrously misplaced.

With Seoul announcing a balance of trade surplus and starting to pay off its creditors, foreign bankers have started worrying instead about how to replace the lost business. Taiwan, long among Asia's most closely guarded economies, has been forced by sheer weight of retained export earnings to relax its foreign exchange controls on outward capital flows.

In Singapore and Hong Kong, which serve as entrepôt and service centers as well as direct exporters, banks' domestic portfolios have soared in quality as higher corporate profits and consumer spending have fed through into recovery for both city-states' highly speculative property markets.

Outside the four tigers, however, the trend is more mixed. Thailand's profile has grown increasingly tigerish as agriculture has taken second place in its economy to industry. As a result, it, too, is racking up a third year of strong export-led growth and registering its first balance of payments surplus in about two decades.

The Philippines' balance of payments and economic growth figures look strong, but for more fragile reasons: Payments are in surplus, due in large part to heavy inflows of speculative foreign capital looking for capital gains from financial assets following the overthrow of former president Ferdinand E. Marcos; economic growth has been assisted by a rescheduling of sovereign debt and a corresponding fall in the projected debt-service ratio.

The succession of economically strong years has cramped banks' new loan activities in Asia, because local companies either have such high retained earnings that they do not need to borrow or their strong balance sheets open up the possibilities of raising money offshore or through securities issues.

In Taiwan, for instance, deposit rates are at an all-time low, and banks are managing to make only 1 New Taiwan dollars (3.3 cents) for every 2 New Taiwan dollars of new deposits — a situation less oppressive for foreign banks, which have in the past found it difficult to obtain interbank funding in New Taiwan dollars but which now have little or no problem raising money.

In Hong Kong, more or less as soon as the property market turned up in 1984, many big borrowers seized the opportunity to raise funds through a new and fast-growing local dollar capital market rather than from their traditional bankers.

As a consequence, the market ballooned in size from 4.8 billion Hong Kong dollars ($615 million) in 1984 to 26.4 billion Hong Kong dollars last year, though it has slowed dramatically since early summer this year, chiefly because interest rates are rising and a temporary saturation point has been reached.

Hong Kong's capital market growth has tracked a worldwide trend toward securitized borrowing, which effects Asia — as a booming center for syndicated lending in the late 1970s and early 1980s — particularly strongly.

Between 1982 and 1985, syndicated bank loans worldwide fell from $100 billion to little more than a fifth of that amount, according to Bank of England figures, while international bonds and notes soared from $70 billion to $160 billion and note issuance facilities expanded from $5 billion to $50 billion.

Since the big syndicated loans were largely the province of the Asian merchant banking arms of U.S. and European commercial banks, it is these institutions, rather than indigenous banks, that have been hit hardest by the loan market's evaporation. And it is also mainly foreign institutions, this time from the investment banking side of the fence, that have made most of the running in managing securities issues.

"It's a risky scenario, and it may not work for some banks," said Mr. Cho, of Citibank. "But it's the only way to compete effectively."

In most Asian countries, including Japan, even big commercial banks have held back from buying investment banking subsidiaries outright, whether for regulatory reasons or because they doubt their capacity to manage such unfamiliar and risky acquisitions.

One important exception has been the Hongkong and Shanghai Banking Corp., which despite its old-fashioned, liability-driven commercial banking style, bought the London broker James Capel two years ago and has been turning it into one of Asia's most powerful brokerages. Roughly 40 percent of Capel's global revenues are now estimated to come from Hong Kong.

Securitization has been a magic carpet for Japan's big four securities houses — Nomura, Daiwa, Nikko and Yamaichi, raising them to the top of the global league table of financial institutions by business volume and by stock market capitalization.

But for the country's mainstream commercial banks, the desire to expand internationally has run up against foreign regulatory pressures that will probably force the banks either to raise much more capital or reduce their loan portfolios.

The Japanese banks' main problem is a reliance on "latent assets," essentially undervalued holdings of shares and property. A portion of the market value of these assets can be used to raise the capital adequacy ratios for domestic regulatory purposes; but they are viewed more dubiously by overseas banking authorities.

> The succession of economically strong years has cramped banks' new loan activities in the 'four tigers' of Asia.

Using U.S. criteria, Japanese banks typically have equity ratios of 2 percent to 3 percent. U.S. and British regulators would like to see a ratio of 5 percent to 6 percent made an international banking standard.

Japanese banks will respond to the anticipated need for higher capital ratios, analysts in Tokyo believe, by raising more than 1.4 trillion yen ($9.8 billion) in new capital in the current financial year. The short-term effect may be painful, these analysts say, but in the longer term, forcing Japanese banks to beef up their balance sheets could make them more competitive still in foreign lending.

"It's another example of U.S. and European interest groups shooting themselves in the foot," one broking analyst in Tokyo said.

With $1 trillion in foreign assets at the end of 1986, the Japanese banks are only the most extreme example of an Asia that has, by and large, done its borrowing and is now looking to repay loans or to start extending them. The major exception (apart from the Philippines) is China, which despite high costs and seemingly endless political frustrations, remains the banks' favorite long-term borrowing prospect.

A series of debt forecasts prepared for Chase Manhattan Bank by Rock Creek Research, of Washington, suggests that China's net debt without reserves could range from $86 billion to $150 billion by the end of 1995, depending on the economic policies adopted in the intervening period. Rock Creek's middle-range "reform and cautious debt" scenario envisages 1995 debt of $142 billion, compared with about $25 billion last year.

"China has shown some lack of financial control over the past three years," said Oliver Greeves, managing director of Chase Manhattan Asia, which commissioned the Rock Creek study. "But there are clear signs now that it is reverting to a more conservative borrowing policy."

One thing China clearly needs is a better coordinated borrowing policy, Mr. Greeves said, to mix long- and short-term debt maturities and currency exposures. Having made half its 1981-1985 borrowings in yen, by most estimates, some of Beijing's planners probably agree.

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Dissent Grows Over Loan Bank

By Francesca Carnevale

LONDON — The cliché "You can't please everyone all of the time" has assumed a particular poignancy for the Asian Development Bank (ADB) this year. Criticism from donor and member countries about the bank's funding and overall management strategies have mounted steadily. Coupled with a decline in the rate of growth of the bank's loan portfolio, the arguments have led some observers to claim that the bank is suffering from an identity crisis.

Governors' meetings in April and July were marked by dissent and hints of contrary pulls on the bank's resources. ADB's president, Masao Fujioka, has consistently rebuffed the trends. He has repeatedly pointed to a growing consensus among the bank's governors and the "friendly identity" of the bank among recipients. But outsiders say the bank will be increasingly challenged by the growing divergent needs of its member countries.

The differences between poor ADB members, such as Indonesia, and the region's fast-growing economies, such as Hong Kong, South Korea and Taiwan, are widening. Volatile exchange rates and unreliable trends in commodity prices are hurting members, such as Malaysia and Thailand. But the export-oriented newly industrialized countries are growing steadily.

The Americans have been the most vociferous critics of the bank's methods, and the issue has even been discussed in the U.S. House of Representatives.

The American argument is based on two premises. First, that public-sector financing does not spur economic growth at the same rate as private-sector financing. Second, that the bank's pool-based lending system does not provide finance at the same competitive rates offered by commercial banks.

The U.S. administration's lever was to slow down contributions to the development bank's soft loan window, causing a delay in the linked contributions of other donor countries. But while these methods have been introduced with some effect in the World Bank, in which the United States is the major shareholder and dominant donor, it has had limited impact on ADB's management. The U.S. shareholding in the bank is only 16.4 percent; equal to that of Japan.

ADB has largely shrugged off the controversy, but at the same time it has acknowledged a modest increase in private-sector lending. The bank's current lending rate is pegged at 7.1 percent, which bank officials concede is still higher than many commercial loans. But they are quick to counter that the bank is still the main provider of long-term finance in the region.

In addition, the bank's predominantly Japanese management has cited the growing trade tensions between the United States and Japan as the real reason for U.S. concern over ADB's lending strategy and accounting. But lately, equally vociferous criticism from both Australia and Indonesia has left the bank stumped as to how to contain the complaints and maintain its emphasis on development lending.

Other areas of dissent involve project allocations and the bad management of existing funds. Janine Haines, leader of the Australian Democratic Party, for example, has criticized the unfair allocation of project contracts. She has also supported allegations in the Australian Financial Review about the alleged bias against Australian suppliers for a bank-financed cattle breeding project in Indonesia.

But while the bank's many defenders say most of the attacks have come from countries with particular axes to grind, the dissent has raged not just in donor countries. Increasingly, it is being voiced from recipients.

> The differences between poor members and the region's fast-growing economies are widening.

The bank's lending rose by only 5 percent in 1986, after declining by more than 15 percent in 1985. During 1986, the ADB approved 52 loans for 48 projects in 19 countries. The average loan size was $38.5 million, a 3.3 percent decrease from the previous year when the average loan amount was $39.8 million.

Co-financing also declined during the year, falling to $492 million in 1985. Developing members have complained about a slowdown in disbursements and have voiced concern that India and China were receiving disproportionate attention for development funds. Although bank officials say that reduced lending was a result of lower demand for loans by already debt-burdened Asian countries, they admit that the bank's portfolio should be larger.

In particular, the 29 developing member countries have demanded that more of the bank's project procurement be sourced from their own domestic suppliers, rather than from international contractors.

With ADB annual commitments totaling about $20 billion, the issue is far from academic. It has been a recurring topic at ADB annual meetings.

But amid the controversy, the bank has received a fillip from the Japanese government. Japan has long been keen to increase both its support of the bank and regional development. The Export-Import Bank of Japan and ADB signed a framework agreement in June to cofinance projects in the Asia-Pacific region. Under the terms of the agreement, the Japanese will provide funds to the bank, which will then mix it with its own resources to provide long-term funds for project sponsors.

Despite initial objections from some recipient countries that the move was a way of increasing Japanese exports to the region, the bank's management stressed that the funds were untied.

Interest on the Japanese funds will be at the long-term Japanese prime rate, currently 4.9 percent. Each loan will have a 20-year maturity and carry a grace period of five years. The funds will go some way to increasing the competitiveness of ADB funds versus commercial financing for selected development projects.

"We are trying to establish loose criteria for commercial banks to come in with ADB to provide funds," bank officials say.

But perhaps more important than the publicized failings and new strategies of the bank is the issue of its role in the Asian region. The reasons for the bank's slow growth appear entrenched. The current management structure looks set to stay for at least another three years, and traditional heavy borrowers such as South Korea and Taiwan no longer need ADB money.

Those countries that need the bank's funds are not in a position to receive them with impunity. Indonesia and the Philippines are laboring under already heavy debt burdens and stagnant commodity earnings that make borrowing difficult.

Nevertheless, an active threat to the bank's role stems from the very initiatives used by less developed members to attract funds at cheaper rates outside ADB.

Indonesia, for example, has used its initiative to capture funds in the shrinking project finance market by forcing contractors to provide commercial finance at preferential terms under Presidential Instruction Number 8. While Indonesia can attract 25- to 30-year funds at 3 percent for infrastructural projects, ADB will come under increasing pressure to revise its interest rate structure.

Possible strategies for the bank's policy makers will be a renewed commitment to provide funds for projects creating noncommodity exports. It is clear that the bank will have to learn to anticipate rather than react to events in the region.

FRANCESCA CARNEVALE is a staff writer for Euromoney's Trade Finance.

Offshore Deposits ■ Decentralization ■ Assets Explosion

Singapore Holds Fast In Asian Dollar Market

By Narayan Balakrishnan

SINGAPORE — Attempts by Singapore to transform itself into a world-class financial center have had mixed results in many fields, but the one role in which it has always excelled has been that as the funding center for Asia.

This city-state of less than three million people is now home to $214 billion in Asia dollar deposits, known as Asian Currency Units, or ACUs. ACUs are usually U.S. dollars, but also include the other major currencies held offshore in Singapore.

When the former deputy prime minister of Singapore, Do Goh Keng Swee, initiated the Asian dollar market less than two decades ago, in 1968, it had deposits that totaled merely $30 million. It took a full three years for the Asian dollar market to cross the billion dollar mark. But by 1983 the amount had increased a hundredfold to $103 billion.

Fears that the opening up of the Tokyo market would have an adverse impact on Singapore's financial markets have proven unfounded, especially in the case of the Asian dollar market. The moves by Tokyo have actually led to a spurt in the amount of offshore deposits held in Singapore, and last year the Asian dollar market in Singapore grew at an annual rate of 21.3 percent to touch the $200 billion mark.

Japanese banks are now among the biggest players in Singapore's Asian dollar market as they find the regulatory environment easier than Tokyo, which has been newly — and only —partly regulated.

Most of the Asian dollar funds are held by the interbank market. Last year, for example, interbank deposits totaled $158.8 billion and loans to nonbank institutions amounted to only $29.1 billion.

So impressive has been the growth of Singapore's Asian dollar market that the total assets of this market are now about six times the assets held in Singapore's domestic banking sector. And 181 financial institutions, including merchant banks, now participate in the Asian dollar market.

In 1986, the total assets and liabilities of the domestic banking system in Singapore grew by 9 percent to $76.8 billion, whereas the Asian dollar market grew by 21.3 percent in the same year. In 1985, the domestic sector grew by 7 percent; the Asian dollar market grew by 21.3 percent.

While the Asian dollar market has succeeded in projecting Singapore into the international league, Singapore now needs more than Asian dollars if it is to continue to move into the front rank of the financial industry.

Fields such as fund management and syndication of loans are considered "high value-added" items, and so far at least Hong Kong has had higher growth than Singapore in these fields.

The funds in the Asian dollar market are just "raw material" that is recycled to the more sophisticated financial centers. As with other industries, the greater profits go to those who sell the finished products, not those who supply the raw materials.

Having succeeded so well in the Asian dollar market in the past two decades, Singapore now has to look beyond acting as a mere funding center in its quest for a greater share of the increasingly global financial pie. However, the $210 billion already accumulated in Singapore's Asian dollar market can serve as a foundation for its efforts to garner the higher value-added activities within its shores.

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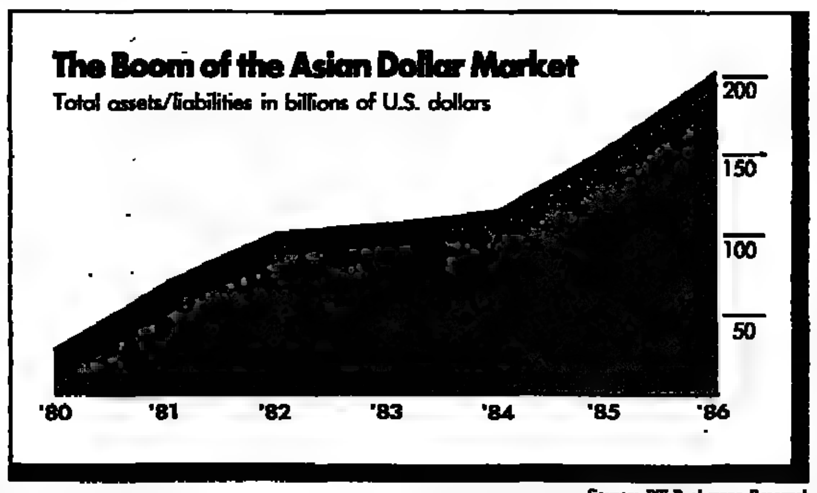

Source: BT Brokerage Research

Liberalization Brings Rapid Changes in Japan

Assets of corporations and individuals have doubled and trebled in 10 years

Special to the IHT

TOKYO — Imagine a poor farmer who manages the local cooperative fund suddenly finding himself trading futures options, juggling interest rate swaps and advising major corporations how to place their funds portfolios.

That is precisely what is happening to Japan's banking industry. The speed of internationalization and liberalization of the Japanese financial markets has created a banking industry in rapid transition.

Helping drive this change has been the explosion in assets held by corporations and individuals, which in 10 years have doubled and trebled.

Japanese and foreign bankers and industry analysts predict two main results. First, that Japan's biggest banks will become even more dominant in the world financial scene than they are now.

Second, that within Japan banking will and must restructure itself into a much more service-oriented, broader-based industry. In the process, some of the smaller, or less profitable, banks may go under or merge with their bigger brothers. Sumitomo Bank's recent takeover of the troubled Heiwa Sogo bank offered a sign of things to come.

The well-defined divisions that characterized the Japanese banking industry of the past, giving each type of bank an area of jealously guarded business that underwrote its continued profitability, are vanishing.

At the heart of this dissolution is the deregulation of interest rates, which, in turn, is a major part of the government's effort to turn the yen into a true international currency. Most bankers agree that, although the original impetus for this came through pressure from abroad, the process has reached a critical stage and is running almost under its own momentum.

By the end of this year, rates on all deposits above 10 million yen ($70,000) should be deregulated. This will mean that only the mass of individual depositors will fall within the regulated bracket. Moreover, even for the small saver, the days of the almost sacred tax-free nest-egg at the nation's huge postal office system are numbered. The favored post office has long been a drain on bank deposits.

Competition for deposits has thus eroded the old guaranteed profit margins where each bank could borrow cheap and lend more expensive money. The impetus has been to look for any area of profit that does not involve pure lending, which was the raison d'être of most forms of Japanese banking during the long years of industrial reconstruction and growth.

Foreign exchange, securities dealing, credit cards, investment advice and all bank services have proliferated. As the search for new areas of profit goes on, another hallowed tradition is breaking down.

The main business of a bank and a securities house has been strictly divided along the lines of the U.S. Glass-Steagall Act. It still is, but the banks are furious that, through a generous interpretation of the ownership rule, many foreign bank branches in Japan now have their securities divisions attached.

A dialogue between the two Japanese industries is urgently required. The securities houses, however, are most reluctant to begin it. The banks say this is due to reluctance by the smaller houses to open themselves to fierce competition from the big banks, which they could not sustain.

Foreign banks in Japan, just like their domestic cousins, will survive and profit from the changes. Some have decided to go the universal bank route and offer all things to all customers. Others have decided to develop a niche and try to keep it.

Most foreign bankers, however, remain deeply frustrated by the still highly regulated short-term markets in Japan. With no large deposit base in Japan, all foreign banks must raise their funds from the capital markets. They complain of a combination of heavy Bank of Japan control, an outdated demand that all short-term money should be collateralized whether the borrower is a top flight bank or a local institution, and an impenetrable system of effective interest rate control and lending quotas through the existing broker system.

Consequently, they say, they are forced to raise much of the yen they need at spreads critically higher than their Japanese competition.

At the top of the new banking pyramid that is being created will be most of the 13 huge city banks, and the three big long-term credit banks. But do not be fooled by the apparent sophistication and international exposure already presented by Japan's big-name banks.

Dai-Ichi Kangyo, Sumitomo, Fuji, Mitsubishi and the other blue-chip banks may be the biggest in the world, thanks to the power of the yen, but their top executives will freely admit that they are still in the process of honing banking skills that less than 10 years ago were quite simply not required in the then conservative financial markets.

This lack of skills in the new banking areas is reaching a crisis point in Tokyo. A good Japanese foreign exchange dealer, one who can sit at his desk and be relied upon to take his own position in several currencies apart from the yen-dollar, and then run it, is worth his weight in gold.

Beneath the big names are the 64 regional banks. Of these, 53 are rated among the world's top 500 banks. They, too, are moving overseas. The seven trust banks have their own special area and are perhaps best placed to take advantage of further deregulation in the securities side.

Perhaps the most vulnerable banks are the mutual loans and savings banks, known as the Sogo banks, which rely on personal deposits but have neither the local contacts that the small credit and cooperative savings groups at the bottom of the scale have, nor the economies of scale that big banks enjoy. Hence, the demise of Heiwa Sogo.

Back at the top, international exposure has brought new problems. The city banks and the long-term banks have an estimated $30 billion exposure to the developing world and $10 billion of high-risk debt at home.

China's Financial Reform Hinges on Diversity

By Robert Cottrell

HONG KONG — In line with China's efforts to spur private initiative and decentralize economic decisions, the challenge for the banking system is to provide more diverse forms of credit to private as well as state-owned enterprises and to allocate credit more in line with market forces and less according to the dictates of central planners.

> The challenge for the banking system is to provide more diverse forms of credit to private as well as state-owned enterprises.

As a consequence, the country's four big state-owned banks have found their shared monopoly challenged by new commercial and investment banks, rural and urban credit cooperatives and securities markets, all of which aim to mobilize fast-rising domestic savings and lend profitably to expanding urban and rural businesses.

In Beijing alone, 10 privately run credit cooperatives have been established within the past year. Between them, they now account for more than 200 million renminbi in gross assets.

Foreign bankers view this pace of change as essential to an expanded role for themselves on the mainland. But most continue to view high-cost offices in Beijing as less a matter of substantial business than of *guanxi*, or personal relationships, which are the key to business success in China.

"The question is no longer a matter of new policies, but of implementation," said Tim Williams, group adviser for mainland affairs for Schroders Asia Ltd. "But if you're thinking of a big bonanza for foreign banks, that's some way down the road."

Proliferating private enterprises constitute a new customer base quite alien to the big banks' traditional dependence on big state-run customers. In effect, the system has been forced to adapt to an increasingly prosperous rural population that is accumulating savings on which it seeks a competitive return.

In the first six months of this year, for instance, rural savings deposits grew by 21.3 percent to more than 124 billion renminbi. Interbank money markets, set up only last year to enable funds to be reallocated between bank branches with deposit-to-loan imbalances, boasted outstanding loans of 30 billion renminbi by August of this year.

With all major political restrictions on its international borrowings now lifted, China is viewed by foreign lenders as one of the world's best sovereign risks.

Finance Minister Wang Bingqian forecasts that foreign borrowing will rise from 7.87 billion renminbi in 1986 to 14.8 billion in 1987. Most Western estimates put China's external debt at $22 billion to $25 billion; with at least 1,700 enterprises now borrowing overseas, no precise consolidated figure is available.

The job of overseeing the financial system's development belongs to the People's Bank of China, which, as the central bank, manages China's monetary affairs, regulates other banks and implements credit policy.

It supervises four main commercial banking units with distinct functions: the Industrial and Commercial Bank, which makes short- and medium-term loans to industrial borrowers; the Agricultural Bank, which lends to farmers and rural industries; the People's Construction Bank, which provides long-term funding for capital projects, and the Bank of China, for foreign exchange and international business.

The capital markets established in Beijing, Shanghai, Wuhan and other provincial cities have primarily dealt in interbank lending, though Shenyang, in particular, has created a thriving bond market, allowing enterprises to borrow money directly from individuals, with a bank mediating only as a selling agent for bonds.

By the end of last year, according to a Beijing news report, joint-stock companies in China had raised 6 billion renminbi in capital through securities issues.

Most daringly, "stock markets" in Beijing and Shanghai have announced trading of shares in local enterprises, though in reality these markets are no more than sales desks in local banks, at which shares are bought but not traded.

The most powerful "new generation" institution is the China International Trust and Investment Corp. (Citic). Essentially an investment bank, Citic has grown from experimental status five years ago into a powerful institution, owning Beijing's tallest skyscraper, providing equity and loan finance to joint ventures and taking an increasingly prominent role in Hong Kong.

Asian Currencies ■ Monetary Baskets ■ European Alignment

With Yen Accord, U.S. Turns Attention to Dollar Pegs in Asia

By Mark Jones

LONDON — With the Japanese yen's sharp rise against the U.S. dollar capped by February's Louvre accord to stabilize the major exchange rates, the United States has turned its attention to other Asian currencies. That is particularly worrying for the export-dependent economies of the region's newly industrialized countries (NICs) — South Korea, Taiwan, Hong Kong and Singapore.

The threat of trade barriers has already forced South Korea and Taiwan to abandon their dollar pegs. Now officials in Hong Kong and Singapore are battling to preserve their dollar links.

As the authorities in South Korea struggle to contain the growing political demands of their once-silent unions, monetary officials have conceded defeat in their battle against won appreciation. The Korean unit, up just 3.3 percent in 1986 to 860 to the dollar, has already risen 5 percent this year.

South Korean officials, who believe Washington is unsympathetic to Korea's need for trade surpluses to pay off the debt run up in the course of industrialization, asked the International Monetary Fund in June to adjudicate. Details of the IMF's advice have not been publicized, but Korean officials have stopped giving assurances that the won will be held above 800 to the dollar this year. Instead, Economic Planning Minister Chung In-Yong now aims to hold the currency to an average of 800 this year, suggesting a rate of 760 by the end of 1987.

With Taiwan's $62 billion in foreign exchange reserves second only to Japan's and its current account surplus now at 20 percent of gross domestic product, compared with Korea's 2.5 percent, Taipei has been under severe pressure to revalue. Last year, the New Taiwanese dollar, which was held close to 40 to the dollar from 1982-1985, appreciated about 11 percent against the U.S. currency and is already up 17 percent this year.

Taipei has been under severe pressure to revalue.

Taipei cut at a stroke nearly 40 years' worth of foreign exchange controls in July. That has held the Taiwanese currency above the 30 to the dollar that Economy Minister Lee Ta-hai aims to safeguard this year. His stance reflects pressure from a vocal small-firms lobby that prophesies widespread bankruptcy if further appreciation of the Taiwan dollar is permitted.

However, economic statistics belie the lobbyists' case: The January-July trade surplus with the United States reached $9.36 billion, compared with $7.47 billion a year earlier, while in August the government increased its 1987 GDP growth forecast from 9.1 percent to 10.6 percent. Against that backdrop, local bankers consider a year-end rate of 28 New Taiwan dollars to the dollar increasingly likely.

Pressure on Hong Kong to adjust its currency has been less consistent than the demands on Taiwan. In June, the U.S. trade representative, Clayton Yeutter, cleared the air by saying, "We're more concerned about exchange relationships with many of our other trading partners." But Mr. Yeutter later added that, in the medium term, Hong Kong should ensure that its dollar is adjusted to restore trade equilibrium with the United States. That advice, coupled with the warning from the government's latest half-yearly report that strong investment and export growth threaten to increase inflation, has reignited fears of a revaluation of the Hong Kong dollar.

Nevertheless, Hong Kong officials say that the peg of $7.80 to the dollar serves a political rather than an economic role. With nervousness rising ahead of 1997's reintegration with China, a firm U.S. dollar peg will limit the impact of political uncertainty.

Until now, Singapore has largely escaped the attention of U.S. trade hawks. This is the result of a recession that left last year's GDP up just 1.8 percent year-on-year compared with 8 to 12 percent in the other NICs.

Exports, buoyed by electronics shipments to the United States (up 49 percent in July, compared with $1.35 billion a year earlier), have hit a record. But Washington's calls for a revaluation of the Singapore dollar have been deflected by Singapore's argument that, with 40 percent of U.S.-destined exports used as components in the United States' own exports, revaluation would worsen U.S. competitiveness. Such reasoning will not impress the U.S. Congress, whose focus is on the growing bilateral trade deficit ($3.2 billion last year, against $1.8 billion in 1985). The Singapore dollar's eight-year-old peg of 2.15 to the dollar is, therefore, expected to give way next year.

Pressure on other Southeast Asian currencies has been on the downside, with the exception of Thailand. Compared with Singapore, Thailand has weathered the 1980s quite well — the Bank of Thailand recently revised upward its estimate for 1987 GDP growth to between 5 percent and 5.6 percent from the original projection of 5 percent and last year's 3.8 percent.

The key factor behind that growth outlook is the buoyancy of manufactured exports (in the first half of 1987, they rose 18.3 percent year-on-year).

While Korea and Singapore have abandoned their U.S. dollar links, China has taken a leaf out of Hong Kong's book and adopted an informal U.S. dollar peg — since July last year, the renminbi has been held at 3.71 to the dollar. Continued dollar weakness has, nevertheless, maintained the growth of exports, and June's trade figures marked the end of three years of deficits. However, the surge in exports partly reflects textile shipments to the United States. These are approaching their quota ceilings, which points to a return to an export-boosting crawling peg devaluation next year.

Another informal dollar peg whose days are numbered is that of the Philippines peso. The political uncertainty that dogs President Corazon C. Aquino's nascent democracy has overshadowed peso stability. In July, the central bank was even forced to buy U.S. dollars to prevent the peso from appreciating through its nine-month-old level of 20.5 to the dollar.

Nevertheless, higher oil prices mean that the trade deficit is still widening (it was $354 million in the first half of this year, compared with the year-earlier $191 million), prompting the Center for Research and Communications, a Manila think tank, to label the fixed exchange rate "romantic and absurd."

The two main oil-producing nations in the region — Malaysia and Indonesia — both suffer from the volatility of world energy prices. However, the absence of foreign exchange controls in Indonesia has presented Jakarta with the bigger currency management headache.

Recurrent bouts of speculation against the rupiah have prompted an overhaul of Indonesian monetary control. Since July, central bank purchases and redemptions of short-term paper have been determined daily. This allows the authorities to rein in liquidity when, as in May and June, there is speculation against the rupiah. Previously, long-term targets for the issues were set and Bank Indonesia would buy or sell whatever the market wanted on a daily basis. The government's commitment to trade-weighted rupiah stability reflects the belief that a devaluation would serve only to increase inflation and debt servicing, which is set to reach 41 percent of exports this year, compared with 37 percent in 1986.

Speculation against Malaysia's ringgit prevented the government from using monetary expansion last year to combat the recession. But since October, capital inflows have resumed on the belief that the recession is over.

MARK JONES is the assistant editor of Euromoney Treasury Report.

EC Endorses Measures to Shore Up EMS

Package allows intervention before limits are reached

By Ken Ferris

LONDON — The European Monetary System (EMS) is entering a new phase in its development as a result of the foresight and persistence of Jacques Delors, president of the European Community Commission. As the 1992 deadline approaches for the phasing out of all EC exchange controls under the so-called Delors Plan, member countries are slowly realizing the magnitude of the task ahead as efforts to strengthen the system's Exchange Rate Mechanism (ERM) gather pace.

The decision by EC officials at a meeting in Nyborg, Denmark, earlier this month to endorse a package of measures to shore up the EMS paves the way for co-ordinated intramarginal intervention before currencies reach their EMS limits and more active use of interest rates to preserve the stability of the system. It also sent out a clear signal that the next step in the liberalization process will be more complex and challenging than the first-stage proposals already being implemented.

The initial measures, approved last December, required the removal of controls on long-term credit, unlisted securities and unit trust trading, and dealing on Community stock exchanges. Mr. Delors has now moved on to the more ambitious second stage in his quest to transform the EC into a free market by outlining proposals that aim to liberalize both commercial and private transactions, including saving and borrowing across national frontiers. The phasing out of existing restrictions on capital movements could not be introduced without a substantial reinforcement of the EMS.

The Nyborg agreement to bolster the functioning of the ERM included strong support for the surveillance of member countries' economic indicators, which is currently being undertaken by the EC monetary committee. Monitoring of these indicators is designed to alert member countries to the difficulties that may arise if they pursue a particular economic policy course.

The decision to strengthen EMS stability through increased use of intervention before currencies reach their trading limits under the ERM is a significant move. Previously, member countries' central banks were only required to step in when a partner's currency reached its maximum divergence limit against the European Currency Unit (ECU) — the EC's common currency. The latest accord means officials are more likely to take action before that point is reached.

Nevertheless, intervention will be limited to an amount not greater than double the debtor country's quota for short-term credits and the borrower may be asked to make use of its own reserves to defend the domestic currency. More significantly, the agreement relies on good will and does not provide for automatic intramarginal intervention. Indeed, Mr. Karl-Otto Pöhl, president of the West German Bundesbank, the central bank, has made it clear that "the main precondition" of the accord is that it does not threaten price stability in West Germany.

A number of EC countries still have a long way to go before they comply with the stage two proposals put forward under the Delors Plan. However, there are signs of progress as most EMS member states draw up timetables for the gradual phasing out of exchange controls.

For example, Luxembourg's monetary association with Belgium has saddled the Grand Duchy with a two-tier exchange rate that differentiates between flows of capital and goods. But the current trend toward exchange control liberalization in the EC has sparked hopes that the dual system may soon be abolished.

"The dual rate system must be abolished by 1992 in line with European Community directives on the free movement of capital," said Dirk de Bakker, a spokesman at the Belgian Finance Ministry. "However, it may well be unified much sooner than that."

The differential between the free and official exchange markets is now close to zero compared to a peak of 16 percent in April 1982. That has encouraged some bankers to believe the two-tier rate will be dismantled as early as October 1987.

But while the Belgian-Luxembourg authorities want to see the dual exchange rate phased out eventually, they are in no hurry to make an immediate decision.

Pierre Jaans, head of the Luxembourg Monetary Institute, which is comparable to a central bank, said the two-tier rate will "definitely not be abolished this year. The position of our two governments is that we will stick to the mechanism as long as we feel it is necessary."

Luxembourg wants exchange restrictions removed, but will only agree to a unified market if there is a guarantee that controls will not subsequently be reintroduced. Pressure for restrictions could arise if the Belgian-Luxembourg franc came under speculative attack on the foreign exchange markets.

Luxembourg's position as a major offshore banking center demands a favorable legal framework, including banking secrecy, a generous fiscal environment and a stable financial climate. The Grand Duchy sees the financial franc as a kind of pressure valve that ensures that capital controls will not be introduced.

However, given the move toward liberalizing EC exchange controls, Belgium would be unlikely to resort to financial controls on capital movements to relieve pressure on a unified exchange rate.

"The European Commission and other member countries think it would be a good idea if the financial franc joined the convertible franc in the EMS," said a spokesman for the EC. "It would make the EMS more creditable and strengthen monetary stability in Europe."

The Commission recently examined the structure of the two-tier system as part of its efforts to guide EC member countries toward complete freedom of capital in the EC. It established that payment transfers for tourist and travel expenditure through travel agencies or credit cards are processed through the financial rather than the commercial rate.

That contravenes the EC principle that a single exchange rate should apply to current transactions, that is, those fully liberalized under EC law. However, the Commission decided that, because of the otherwise liberal nature of the system, no immediate action would be taken. The two-tier structure is specially allowed to exist in legal terms according to EC rules.

Nevertheless, the distinction between the two rates must be removed by 1992 to comply with the spirit, if not the letter, of the plan put forward by Mr. Delors to liberalize all EC exchange controls. The commission is now in close contact with the Belgian-Luxembourg authorities to monitor progress toward unifying the rate.

Roland Leuschel, an economist at Banque Bruxelles Lambert, believes it is imperative that the two-tier system be abolished. He points out that the Belgian and Luxembourg francs are both part of the ECU and that the dual exchange rate stands in the way of more widespread development of the EC's common currency.

"It makes no sense to maintain the system when the financial/commercial rate differential is less than half a percent," said Mr. Leuschel. "It complicates things when you have to tell potential foreign investors that there is a two-tier system and then explain how it works."

Belgium and Luxembourg have to maintain the spot rate between their two currencies and those of other EMS members within 2.25 percent either side of bilateral central rates. The Luxembourg franc's link to its Belgian counterpart means the currency takes its cue from the performance of Belgium's economy.

The franc's current stability in the EMS, particularly against the Deutsche mark, has enabled Brussels to ease the discount rate from 8.5 percent in January to 7.25 percent following the latest cut on July 22. There is no mechanical link between interest rates in the two countries and rates in Luxembourg have historically been below those of its larger neighbor. But the reductions in Belgium do provide the scope for lower interest rates in the Grand Duchy.

Economic fundamentals have also moved in favor of the Belgian-Luxembourg currency. Inflation in Belgium fell from 8.4 percent in 1982 to last year's 1.8 percent and should be close to 1.5 percent this year (1 percent in Luxembourg) according to the Organization for Economic Cooperation and Development (OECD). That would mean an inflation differential with West Germany of just 0.5 percent against the 2.7 percent registered in 1986.

Nevertheless, if the dollar's recent decline against the Deutsche mark continues, intra-EMS strains will begin to surface. That could force the National Bank of Belgium, which holds foreign exchange reserves for Belgium and Luxembourg, to defend the franc by using its reserves or raising interest rates.

KEN FERRIS is editor of Euromoney Treasury Report.

Jacques Delors, president of the European Community Commission.

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ECU Widens Appeal as Stable Unit

By Giles Merritt

BRUSSELS — "The ECU has come of age!" triumphantly announced André Swings of Kredietbank. A general manager at Kredietbank, the No. 3 Belgian bank that is the standard-bearer of the Flemish business community, Mr. Swings is one of the most enthusiastic of those preaching the virtues of the ECU, or European Currency Unit.

"More and more people are pricing goods and services in ECUs," said Mr. Swings. "We will continue to replace deals that used to be made in national currencies with ones denominated in the ECU. And the time must come when the ECU will be redefined; it will no longer be a basket of currencies but the national currency of the European Community."

The ECU is pushing aside national currencies as the unit that more and more investors and corporate treasurers prefer because of its stability and the way it smooths out the problems of exchange rate fluctuations. Now almost nine years old, the ECU has come a long way since it was first launched as the transactions unit for settling inter-government accounts within the European Monetary System (EMS).

From its small beginnings as a technical device for use by Europe's central bankers, the ECU has become a Eurocurrency in its own right. It is now the fifth most popular denomination for bond issues on the Euromarkets, ranking behind the U.S. dollar, the Deutsche mark, the Swiss franc and the Japanese yen. To celebrate its growing maturity, the Europe-minded Belgian government this year started to mint ECU coins.

More than 350 European banks provide a full range of financial services denominated in ECUs, and the total number of banks that are active in the ECU market is put at over 1,000 banks in 30 countries. As well as being a basket of EMS currencies that is used for sophisticated financial operations, like syndicated loans, certificates of deposit, Eurobonds, futures and options, the ECU is also becoming a recognizable currency.

In 1985, Thomas Cook in Britain, together with Société du Cheque de Voyage in France, introduced ECU-denominated travelers' checks. And Thomas Cook has reported a growing demand for them. The checks protect the traveler against the effects of gyrating currency markets.

In summing up the outlook for the ECU travelers' check, Thomas Cook has forecast: "All signs are that within five years it will become an internationally accepted means of payment, second only to the U.S. dollar."

More importantly, the ECU has become an increasingly popular settlements currency for the invoicing and payment of international import-export deals since the seesawing dollar has lost much of its attraction to businessmen as the best currency in which to denominate international trade.

In Italy, where currency regulations limit the use that exporters and importers can make of the Italian lira, as much as 25 percent of the country's foreign trade is billed in ECUs.

Broadly speaking, the ECU's runaway growth as a new financial instrument has stabilized this year. Instead, the ECU has been developing fastest in the political arena as European countries have made significant advances in accepting it.

In mid-1987, the Deutsche Bundesbank finally dropped its long-held ban on the right of West German residents to hold ECU accounts. The Frankfurt-based central bank had until then argued that allowing private use of the ECU contravened West Germany's law against indexed liabilities, in which debts contracted in other currencies were payable in Deutsche marks.

Bowing to political pressures and at the same time publicly acknowledging that France and Italy had both reduced their capital controls, the Bundesbank said that West German residents could in the future hold private ECU accounts there. Soon after that, the Spanish government lifted its remaining restrictions and granted full recognition of the ECU.

The two decisions cleared away some of the major obstacles to the ECU's wider use, as well as its eventual role as the single currency of the European Community. That, at any rate, is the declared aim of the Paris-based ECU Banking Association, which groups the banks most involved in popularizing the ECU.

The president of the ECU Banking Association, Dominique Rambure, who is European director of the Istituto Bancario San Paolo di Torino, commented that the ECU is now in the second phase of its development. The first phase, he believes, was when it underwent remarkable growth as a denominator for new bond issues. Its second phase is as an instrument for international trade and for corporate transactions.

"But the corporate community is not as cohesive as the Eurobond market," said Mr. Rambure when he pointed out that it is not possible to convince company treasurers "en masse" of the benefits of using the ECU.

Last year, bond market activity in the ECU slowed in relation to the hectic 250 percent rate of growth of 1985. Instead of the 138 ECU bond issues reached in 1985, there were 85 in 1986 and 32 new issues in the first quarter of this year. Activity on the ECU syndicated loan market also quieted down.

Mr. Swings said that the ECU slowdown is nothing to be alarmed about. "The rate of growth in the ECU market is not as steep as it used to be, and that's only natural," he said. But he added that in relation to other currencies, there is still comparatively fast growth for the ECU in domestic bond issues and the Euromarkets.

The future of the ECU, however, appears to be closely linked to companies' use of the Eurocurrency as the basis for their foreign trade.

Jacques-Henri David, a senior executive at the French multinational Saint-Gobain Pont à Mousson, which uses the ECU extensively in both its internal and external transactions, summed up the situation: "The use of the ECU as an independent currency has been very profitable for Saint-Gobain . . . European corporations need their own currency, as American and Japanese firms already have respectively the U.S. dollar and the yen."

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Pegs in Asia

al as Stable

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Hedging Hones Earnings Edge

Small companies buck currency swings

By Janet Porter

LONDON — A British rock band that toured the United States recently was able to make more money than on a previous visit, even though the group's dollar earnings were down and the U.S. currency was weaker against the pound.

It may not do their image much good or go down too well with their fans, but members of the group were able to return home better off due to some judicious hedging advice from their merchant bankers.

As the range of financial instruments grows almost daily and world markets move toward 24-hour trading, the management of currency and interest rate risks is becoming feasible for many more customers.

Multinational corporations with huge exposures are no longer the only ones that can afford to buy protection against exchange or interest rate movements. As the marketplace becomes more efficient and more sophisticated, the size of viable transactions is shrinking, and is likely to become even smaller as new products are developed and hedging skills are refined with the help of new technology and improved telecommunications.

During the past six years, the major currencies have moved by an average of 23 percent a year against each other and, during the particularly volatile market conditions witnessed in 1985, the dollar/sterling exchange rate swung from a high of $1.4960 down to $1.0350, a 44.5 percent fluctuation.

The dollar has declined by 45 percent against the Deutsche mark and the Japanese yen over the past 18 months. During the first four months of this year, the U.S. currency fell against the Japanese yen from 158.00 yen to an all-time low 137.25 yen in April.

As the former airline chief, Sir Freddie Laker, found out to his cost, failure to insure against currency movements can be disastrous. He was driven out of business five years ago not because he could not fill his aircraft but largely because he neglected to hedge his huge dollar borrowings and then came horribly unstuck when sterling depreciated sharply against the U.S. currency.

"Exchange rate or interest rate movements no longer need be regarded as an act of God," said Graham Steward, assistant director, foreign exchange treasury services at Hambros Bank.

Instead, exporters, importers and others involved in cross-border transactions should be able to exploit the money market instruments now available to give themselves a competitive edge in world markets. If all else is equal — if two companies are producing an identical product for the same cost — then the manufacturer that has made the cleverest use of financial tools available in order to offer the guaranteed best price will win the orders.

For small or medium-sized companies that have little experience of international business, the real problem is not just identifying the risk but also finding out what is available and understanding the banking and market jargon.

Companies need to recognize, for example, that there are three separate kinds of currency risk — a transaction exposure that arises out of a normal cross-border trading activity; a translation exposure that arises from the need to re-evaluate in terms of a company's reporting currency those assets, liabilities, income and expenditure that are denominated in a foreign currency, and economic exposure that arises from a company's commitments to specific currencies and currency environments.

The International Chamber of Commerce identifies nine basic techniques for managing exchange rate risks, ranging from the matching of receipts and payments in the same currency; multilateral netting; leading and lagging; through to the use of forward currency transactions; futures; options; swaps, and official export/financing insurance agencies.

The real test, though, is knowing how to apply and combine the various products in order to achieve the most effective result.

The management of currency and interest rate risks has become so advanced and sophisticated that products are more or less tailor-made to a particular customers needs, with financial advisers developing and refining new techniques daily.

Bankers say they are coming close to being able to cover all risks — the decision the customer has to make is whether he is prepared to pay for virtually full cover or whether it may be preferable to hedge only part of the exposure. But as new financial futures and options contracts are launched on the world's exchanges and dealers refine and build on these products to meet particular customer needs, money market fluctuations need no longer present the sort of nightmare that they have done in the past.

Sir Freddie Laker AP

Furthermore, as the world's financial markets evolve, so the range of products will continue to grow.

Likewise as trading volumes expand, more cross-trades should soon be possible directly between currencies rather than through the U.S. dollar, enabling transactions to be completed more quickly and more cheaply. There is also scope for improvement in the variety of interest rate hedging instruments. The broadest choice of tools for guarding against adverse interest rate swings are available in dollars and sterling, but at present are more limited in Deutsche marks, Japanese yen and Swiss francs.

JANET PORTER is the European bureau chief for The Journal of Commerce.

Borrowing Dips On Euromarkets

Special to the IHT

LONDON — The development of new markets and new financial instruments has slowed in recent months and, most importantly, major borrowers, especially those looking to refinance existing debt, have not been able to find terms attractive enough to issue debt in the same volume as they had previously.

As a result, while borrowing in international markets, notably the Eurobond market, has been slightly higher in dollar terms than it was over the same period last year, when the declining value of the U.S. currency is taken into account, it has in fact been slightly lower.

Along with the near drying up of the new-issue market in Eurodollar floating rate notes following last winter's liquidity crisis in the perpetual sector of the market, it has been the decline in dollar financing overall that has accounted for this. Japanese investors have become the mainstay of the Eurobond market, and they have consistently shied away throughout 1987 from U.S. corporate Eurobonds, for many years the bread and butter of the market.

A notable exception to the Eurodollar markets' lack of activity has been the torrent of issues by Japanese corporations with equity warrants attached, about $15 billion of which have been launched so far this year, with more than half of them ending up in Japanese investors' hands. Roughly one quarter of all Eurobond issues launched during the first half of this year were equity related; convertible into stock or with warrants to purchase stock attached.

Another has been the shorter end of the maturity spectrum, an area where the Euromarkets are still relatively underdeveloped. The Eurocommercial paper market has continued to grow rapidly, and outstandings in the Euronote market overall are now estimated to be as high as $40 billion.

The Euro-medium term note market — providing paper of two- or three-year maturities — has over recent months seen increasing investor demand against a background of an uncertain interest rate outlook.

The Kingdom of Spain announced a $1 billion medium-term note facility in July, and major facilities previously arranged for prestigious names like Pepsico and General Motors Acceptance Corp. have been activated.

Before this market came into being last year, the only two-year Euromarket securities available to investors were bank certificates of deposit. For issuers, funding costs below the London Interbank Bid Rate makes this an attractive market.

But as for the mainstream, five-year plus maturity Eurobond market — apart from faddish instruments such as warrants and the development of synthetic instruments launched as repackaged floating rate notes — the Eurobond market has been characterized by investors jumping from currency sector to currency sector, following the foreign exchange markets.

The yen especially as well as the Deutsche mark, sterling, Canadian, Australian and New Zealand dollar markets have seen periods of relatively high new-issue volume as a result, while remaining vulnerable to periods of famine and falling prices.

The demands of the major sovereign borrowers on the international capital markets have shrunk. The United Kingdom borrowed a total of $6.5 billion with Eurodollar floating rate note issues last year in order to shore up the government Treasury's reserves to play in the foreign exchange markets before the general election last June. Opportunities for financings such as those are no longer a feature of the international markets.

Other major sovereign issuers are simply borrowing less. The Kingdom of Denmark borrowed a total of $1 billion in a single day from the Euromarkets last year, but its borrowing requirement for this year is only about $4 billion compared to 1986's total of $7.25 billion. This is largely due to an improved balance of payments position.

It is a similar story in Sweden, which this year will be far less active simply because it has over the past three years succeeded in refinancing all of the high-interest debt it incurred earlier. The same applies to other major sovereign and supranational borrowers.

FOR the Euromarket houses, this slowdown has meant a refocusing of priorities. The international equity markets and domestic government bond markets have attracted most attention, although in the case of the latter the experience of the U.K. government gilt-edged market since "Big Bang" last October has proved that low government funding requirements leave room for only a few major players in each market.

The international equity market is certainly booming, however. During the first six months of 1987, about $30 billion of internationally syndicated equity issues were launched, and while there was a notable debacle in the case of Fiat's giant $2.1 billion deal, that total compares with $33 billion for all of 1986.

But for many houses the result of rising interest rates and the retrenchment of both fixed and floating rate bond markets has entailed the beginning of an austerity period that even a year ago would have been unthinkable to the notoriously well-paid and bonused Euromarketeers.

Some houses have dropped out of market making in certain sectors altogether, while others simply are beginning to cut back on staffing and recruitment.

Internationally, there are prospects for the development of new lending. It has been estimated that China may borrow up to $40 billion in international loan and bond markets over the next five years.

There has also been some hope rekindled that a solution to the massive problem of Third World debt might involve the creation of a market for debt-to-equity swaps and a large and liquid secondary market for the trading of debt marked down to its market value.

Banks, Thrifts Buoy Securitization Markets

By Linda Keslar

NEW YORK — This year has seen yet another watershed in asset-backed securitization, the fastest growing market segment in terms of volume of the U.S. capital markets.

Up until this year, this $16 billion market has been dominated by captive finance companies, like General Motors Acceptance Corp. But now banks and thrifts are emerging as some of the most innovative players in the sale of these securities, accounting for more than half the $6 billion issued in the public market so far this year.

That kind of growth is posing new challenges for bank managements, since selling off parts of a bank portfolio was unthinkable only a few years ago. So far, U.S. banks have successfully bundled automobile loans and credit card receivables into public securities and sold them to investors for a profit.

But the diversity of their loan portfolios is likely to lead to more innovative offerings as bank managements look at other portions of their commercial portfolios, like second mortgages, mobile home loans, and even their worst performing loans to the Third World as a source of new funding.

"Securitization gives bank managements more tools to manage the size of their balance sheet and make their capital work more effectively," said Patricia Jehle, a director at Salomon Brothers, which has managed several asset-backed deals for banks in the public market.

"It's a brave new world for banking since securitization makes loans a tradeable instrument," said George J. Vojta, a vice president of corporate management at Bankers Trust. "As securitization becomes more and more competitive, banks will make less from originating loans."

For the most part, asset-backed securitization is uniquely a U.S. market phenomenon, driven in part by a regulatory environment that has also urged banks to strengthen their capital levels. By packaging loans into a security generally backed by a certificate or note, banks wipe those loans off their books and use the proceeds from the securities sale to make new loans. Banks also make a profit from the securities sales since they receive a higher interest rate on the loans than they pay to investors who bought the security.

Bank of America has bundled about $2 billion worth of its credit card and car loan receivables into six separate securities, which it sold in the public market over the past 16 months. The California bank was able to shed those loans off its books and use the proceeds from the securities sales to make new loans as well as inject an additional $140 million into its capital reserves.

"That's money that otherwise would not be there," said Townsend Walker, a vice president at Bank of America.

"Third World loans bring an additional sovereign risk feature to securitizing assets and that introduces even more complexity into what is complicated to begin with," said Miles Federman, a senior vice president at Standard & Poor's, the rating agency.

To get an investment grade rating, securities backed by Third World debt would have to carry hefty insurance, he added, perhaps more than 50 percent of the face value of the underlying loans. That would also make the security more costly to investors. By contrast, for securities backed by mortgages and car loans, a 5 percent to 10 percent guarantee will get a triple-A rating.

In fact, the trouble and expense of securitizing assets has deterred many of the nation's banks from entering the market. Transactions can take up to six months to complete.

"Bank managements are worried that they have to be computer experts to do these deals," said André Korovych, a director of asset backed financing at Drexel Burnham Lambert.

Larger banks, like Bank of America, also look to refining their own securitized deals so that they may one day both structure and distribute such financings for other banks and corporations. "It's a way for us to tap a broader group of investors," said Bank of America's Mr. Walker.

Last July, banks were given the green light by regulators to underwrite and deal in asset-backed securities. But they are not allowed to use their new authority until Congress lifts the moratorium on their new underwriting powers on March 1, 1988.

LINDA KESLAR is a financial journalist based in New York.

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EUROBONDS

Banks, Taking Long View, Help Clients in Bad Times

By CARL GEWIRTZ
International Herald Tribune

PARIS — The volume of Eurobonds launched last week made it look as if business was almost back to normal. But the activity was mostly bravado on the part of underwriters trying to satisfy their customers' demand to borrow before interest rates rise further.

"Clients are spooked about the rise in interest rates," an investment banker said. "They want to lock in funds while they still can and they expect their bankers to be supportive, in the bad times as well as the good times."

The risk-reward ratio in bringing new business is "appalling," he admitted. "We're all doing business we'd rather not do. Underwriters these days can only lose money."

So why do banks agree to accept new business? "Because times are changing, we're moving back to relationship banking," the banker said, away from the days when borrowers asked for competitive bids and appointed as lead manager whichever bank proposed the most favorable terms.

Underwriters are nevertheless left holding paper that cannot easily be sold.

"We're making a fundamental business decision that banks which are supportive to issuers in these difficult markets will keep those clients when conditions improve."

Underwriters taking this long view are nevertheless left holding paper that cannot easily be sold. The banks can either drop the price of the paper until professional bargain hunters are tempted to buy or can inventory the paper with borrowed money. This latter strategy is a profitable one. Eurodollar bonds, for example, currently yield just over 9 percent, while the cost to borrow dollars overnight is 7¼ percent.

That is a very comfortable spread for banks to pocket. It is also risky. The majority of professional opinion is that interest rates are much more likely to rise than fall. If rates do jerk upward, that financing gain could evaporate and banks would then be left holding bonds whose resale value was plummeting, since bond prices fall as interest rates rise.

THE ONLY ATTRACTION the new fixed-coupon issues offer investors is their short maturity. Institutional investors such as bond funds, pension funds or life insurance companies are not able to dispose of their bond holdings and move into cash or other instruments just because interest rates are rising.

They are obliged to remain in the bond market. But one way they can manage that risk when rates are rising is to shorten the maturity of their holdings.

That strategy is aimed at benefiting from the fact that as interest rates rise, the increase amplifies along the maturity horizon, with longest-term paper registering the largest increase in yield and the biggest drop in price. By contrast, short-term paper is the least vulnerable to price erosion as redemption at par value is so near.

Professional investors, therefore, are eager to sell long-term bonds in their portfolios and use the cash to buy new short-dated securities. This was evident recently when both Italy and Sweden reopened the dormant market for Eurodollar paper.

But there was not much evidence of such activity last week, when the three new issues were all from U.S. corporations. The recent history of lawsuits, takeovers, buyouts and other overnight developments transforming a company that had a triple-A credit rating to a triple-B have turned the once much desired debt of U.S. companies to the pariah of the market.

American General, the U.S. insurance company, priced its $150 million issue at 50 basis points, or a half percentage point, over the yield on U.S. Treasury notes. Investors have the option of redeeming the paper after three years or holding it to final maturity in seven years. If in three years U.S. interest rates have fallen sharply, the option to hold the paper to 1994 would be very attractive.

Lead manager Credit Suisse First Boston valued that option at the equivalent of 15 basis points, giving a theoretical yield of 65 basis points over the current yield on Treasury notes. Competitors argued that the yield, whichever way it was calculated, needed to be 75 basis points over the curve to be attractive.

But that argument was purely theoretical. Investors indicated that they put a zero value on the option to hold the paper for seven years. The notes, bearing a coupon of 9 percent and priced at 100⅝, ended the week down 2¼ points, well outside the 1⅝ points paid as fees to underwriters.

Ford Motor Credit's $200 million of three-year notes, offered to yield 60 basis points over the Treasury curve, ended the week trading at a 2½-point discount to yield 70 basis points over.

American Telephone & Telegraph, making only its fourth appearance in the international market, tried putting two-year

See EUROBONDS, Page 19

Big Issue Planned In Italy

Montedison Aims To Pare Debt

Reuters

MILAN — Montedison SpA's board has approved a 1 trillion lire (about $760 million) rights issue aimed at reducing its huge debt after several recent acquisitions.

The issue, Montedison's largest ever capital-raising operation, will be considered by shareholders at a meeting in November.

Officials said the plan calls for the issue of 540.9 million ordinary shares at 1,900 lire each, to be offered on the basis of one new share for every five ordinary or savings share currently held.

The shares would have a nominal value of 1,000 lire each.

Lino Cardarelli, Montedison's managing director for financial policy, said Saturday that the group's net debt currently stands at about 7.6 trillion lire after several large acquisitions.

Among those were an agreement earlier this month to buy a controlling stake in U.S. polypropylene producer Himont Inc. for $1.6 billion.

Last week, Montedison's request on international markets for an $800 million loan to help finance that acquisition was more than four times oversubscribed. (International Credit, Page 19).

Montedison's ratio of debt to equity, currently 1.3, would be lowered to 0.9 by the rights issue, Mr. Cardarelli said.

He said the plan "means we do not have to worry about the financial structure and can concentrate on industrial strategy."

As part of the plan, the chemicals and pharmaceuticals company said, it has reached a preliminary accord with investment banking and securities firm Wertheim Schroder & Co. to acquire rights for up to 300 billion lire of Montedison shares.

Wertheim would then guide a secondary placement of the shares on foreign markets. Montedison officials said details of that placement had not been finalized.

UPI Reuters

Entrepreneurs who have taken an interest in Pearson: From left, Carlo de Benedetti, chairman of Olivetti, publisher Rupert Murdoch and Li Ka-shing, Hong Kong financier.

Pearson: A Prime Breakup Target?

Murdoch Seen as Latest Predator Circling Family Firm

By Steve Lohr
New York Times Service

LONDON — Pearson PLC, the blue-chip British conglomerate whose holdings range from the Financial Times newspaper to Madame Tussaud's wax museum, had caught the eye of corporate raiders long before the publisher Rupert Murdoch bought a major stake in Pearson last week.

Last year, Li Ka-shing, a Hong Kong billionaire financier, purchased a 5 percent holding in Pearson, which he later sold.

Earlier this year, Carlo de Benedetti, the Italian entrepreneur and chief executive of Olivetti SpA, acquired just under 5 percent. And for nearly a year, Pearson has been the subject of bid rumors, with the list of supposedly interested investors including New York-based financier Saul Steinberg and a bevy of British predators.

Pearson is viewed as vulnerable because the 143-year-old family enterprise is a collection of excellent businesses brought together more by historical accident than by coherent design.

The Pearson portfolio is a grab-bag: as well as the Financial Times and Madame Tussaud's, it includes an amusement park, Royal Doulton china, the Château Latour vineyards, a couple of oil-service and exploration companies, half of The Economist magazine, half of Lazard Brothers merchant bank

Reuters

Lord Blakenham

and the Penguin publishing group.

Pearson, according to some brokers and investment bankers, appears to be a prime candidate for a corporate "restructuring," splitting up the separate businesses as independent companies or selling them off to other companies. The theory behind such thinking is that the whole of Pearson is worth less than the sum of the parts.

It is in that context that Mr. Murdoch's move last week is being viewed. Feverish buying of Pearson stock by Mr. Murdoch's News Corp. brought the disclosure that he held nearly 15 percent of the conglomerate's shares by the end of the week. The total price of Mr. Murdoch's stake is estimated at $420 million.

A News Corp. statement suggested that the purchase was to pave the way for friendly joint ventures, such as stepping up the Financial Times' drive to enlarge its overseas circulation. But Pearson executives are doubtful about the claim, noting that any proposed joint venture would stand or fall by its own logic, hardly requiring Mr. Murdoch's $420 million stake.

Pearson executives note, too, that Mr. Murdoch rarely buys parts of companies for investment purposes only.

"Anyone who assumes Rupert Murdoch is a passive investor should have his sanity tested," one Pearson adviser said.

In its statement, Mr. Murdoch's company said it did not plan to make an all-out bid for Pearson during the next 12 months "in the absence of a material change in the circumstances of that company."

No inkling was given as to what would constitute a material change by Mr. Murdoch's reckoning.

According to sources close to Pearson, Mr. Murdoch's stake is probably a prelude to a breakup bid. Mr. Murdoch, they say, must place a high price on the

See PEARSON, Page 19

Brazil Requests $10 Billion for Debt Payments

By Anne Swardson
Washington Post Service

WASHINGTON — Brazil, presenting a plan to foreign commercial banks for resuming the debt payments that it suspended in February, has requested $10.4 billion in new loans to finance interest due over three years.

Creditor banks said it was too early to react officially to the plan, which Brazil presented Friday as it opened its first serious negotiations since halting payments on $68 billion in commercial debt.

Brazil also said it was prepared to convert some of the debt into bonds issued at the par value of the debt, with interest rates subject to unspecified limits.

The country also called for the reduction of the interest rate on the remaining bank debt to the banks' cost of funds, and for fixed interest rates with "appropriate adjustments." Interest on bank loans of this kind usually fluctuates with changes in market interest rates.

The new lending includes back interest Brazil has accumulated since it suspended payments, as well as the interest it will owe in the remainder of 1987, in 1988 and in 1989.

With public and private debt totaling $112 billion, Brazil is the second-largest Latin American debtor after Mexico.

"In order to be current on our interest payments, we need interest financing," said Fernão Bracher, Brazil's chief debt negotiator.

The two sides are to meet again Friday after working groups have analyzed the proposals.

One of the 14 bankers on the committee that met the Brazilians said of the plan: "We don't like it, obviously, especially the idea of lending specifically to pay our own interest."

But he and others said it was encouraging that Brazil had finally returned to the negotiating table after seven months of strained relations. "This is only a beginning. Everything is open to negotiation," another banker said.

Although it was not emphasized at the meeting, U.S. bankers are facing a deadline. A committee of bank regulators is expected next month to consider ordering banks to downgrade some of their Brazilian debt if no token payment is made before then.

Such a downgrading would amount to a partial writeoff of the debt, which the banks have balked at doing.

So far, President José Sarney has rejected bankers' suggestions that Brazil submit its inflation-ridden economy to the economic oversight of the International Monetary Fund, as most debtor nations have done, in return for new loans and easier terms on the existing debt.

Banks Provide $1.95 Billion For Argentina

Reuters

WASHINGTON — Argentina's creditor banks have more than fully subscribed for a $1.95 billion loan negotiated last month, making the credit effective.

William R. Rhodes, a Citibank executive and chairman of the bank working group for Argentina, said Saturday that Argentina was expected to draw $750 million of the new money on Oct. 6.

Under terms of the financing package, Argentina's creditor banks committed themselves to a $1.05 billion medium-term loan, $500 million in cofinancing with the World Bank and a $400 million trade credit and deposit facility.

Bank commitments to the package are being reduced pro-rata to reflect the oversubscription. The announcement comes at a time of uncertainty over Argentina's economy, including an expected 50 percent decline in its trade surplus this year and recent election gains by the opposition Peronist party, which advocates a debt moratorium.

Developing Nations Call For Fresh Debt Strategy

Reuters

WASHINGTON — Developing countries say there is a danger of a stalemate in efforts to resolve the five-year-old debt crisis and have jointly called for a dialogue between industrialized and debtor nations to work out innovative solutions.

"A real concerted effort is required to remove the prospect of deadlock and to pave the way for a cooperative solution to the debt problem," the Group of 24 developing nations said in a communiqué issued Saturday.

The statement was released in advance of meetings this week of the International Monetary Fund and World Bank.

The finance ministers from the 24 developing countries said that the debt crisis could worsen if no changes in strategy are made.

"The new market reality opens the way for a long-term solution to the debt problem," the ministers said. They urged "the adoption of new, innovative mechanisms that may bring about a change in approach from mere debt reschedulings to debt reconstruction."

The ministers issued a number of demands on industrialized nations aimed at relieving the economic plight of poor countries.

At a meeting chaired by Finance Minister Svetozar Rikanovic of Yugoslavia, the ministers called for industrialized nations to lift foreign aid to a targeted 0.7 percent of their gross national products. Of that amount, 0.15 percent would go to the poorest developing nations.

The countries also called for prompt approval of an increase in the IMF's Structural Adjustment Facility for aid to low-income countries, and for a general capital increase for the World Bank.

The IMF's managing director, Michel Camdessus, proposed at an economic summit meeting of the seven leading industrialized countries in June that the Structural Adjustment Facility, a pool of money provided to desperately poor countries, be tripled to about $12 billion because of near-crisis conditions.

Industrialized nations have endorsed the plan in principle but have made no commitment to any figure.

Finance Minister Bernard Chidzero of Zimbabwe, who chairs the World Bank Development Committee, which meets Monday, said earlier that his "minimum expectation" was that an increase in structural adjustment fund resources would be approved this week. He did not predict how large the increase would be.

The 24 developing countries also argued that a change in existing debt strategy was urgent because of rising interest rates, the lack of voluntary lending by commercial banks and a deterioration in the trade balances of debtor countries.

They also called for a new approach by multilateral finance institutions such as the World Bank and IMF in supporting growth-oriented programs in debtor nations, particularly through debt relief.

World's Poorest Countries

Country	[illegible]
Ethiopia	$1.9
Bangladesh	6.5
Burkina Faso	0.5
Mali	1.5
Bhutan	N.R.
Mozambique	N.R.
Nepal	0.6
Malawi	1.0
Zaire	N.R.
Burma	3.1

IMF Sees Moderate World Growth

Reuters

WASHINGTON — The International Monetary Fund, judging that prospects are better than they were six months ago, predicted Sunday that the world economy would expand by a moderate 2.8 percent this year and by 3.1 percent in 1988.

It previously had projected 1987 growth at 2.7 percent. In 1986, the world economy expanded at a 3.2 percent rate.

But the IMF's World Economic Outlook, released in conjunction with its annual meeting, also said that middle-income debtor countries and sub-Saharan Africa faced a bleak and uncertain future.

The IMF said it expected world output to maintain its current momentum despite "the hesitancy in industrial-country growth in late 1986 and early 1987."

For industrialized countries, growth is projected at 2.4 percent this year, a slight increase from the a 2.3 percent forecast made in April, and at 2.6 percent in 1988.

The IMF said that developing countries should see a growth rate of 3.3 percent this year, up from an earlier 3 percent forecast, and of 4.4 percent in 1988.

Referring to attempts by the United States, Japan and West Germany to correct imbalances in their economies, the report said, "Policy changes that are under way should help to improve business confidence and sustained demand."

It said that the economies of oil-exporting countries, hurt badly by a plunge in oil prices would recover somewhat in 1988, growing by 2.9 percent after a 0.6 percent downturn this year and a 0.1 percent reduction in 1986.

The IMF said that the volume of world trade would increase 3.4 percent this year and by 4.4 percent in 1988, compared with 4.8 percent in 1986.

Inflation, a key indicator of economic health, is expected to accelerate slightly in the industrialized countries next year while easing in the developing world.

Specifically, the IMF forecast that prices in industrialized countries would climb by 3.3 percent in 1988 after rising 3.1 percent this year and 3.3 percent in 1986.

Inflation in developing countries is projected at 6.6 percent in 1988, the IMF said, after an 8 percent rate in 1987 and an 8.2 percent rate in 1986.

The U.S. economy is expected to grow by 2.7 percent next year after a projected 2.4 percent expansion in 1987, the IMF said. West Germany is likely to see a 2.1 percent growth rate in 1988, it said, after a tepid 1.5 percent this year.

Japan's economy is expected to expand 3.4 percent in 1988 following 3.2 percent growth in 1987, the report said.

Gold Sale Seems Unlikely

A suggestion by the Japanese that the IMF sell some of its vast gold holdings to assist the very poorest countries will gain little ground in the immediate future, monetary sources said Sunday.

The industrialized countries are divided on the issue. The United States opposes the idea, arguing that there is already enough global liquidity to assist developing countries, the sources said.

But some other leading nations, including Britain, say that they have no objection in principle.

After arriving for talks associated with the annual meetings of the IMF and World Bank, Vice Finance Minister Toyoo Gyohten of Japan said, "We should not exclude the possibility of selling IMF gold."

The IMF holds about 100 million ounces of gold in its coffers with a current market value of about $46 billion.

Countries representing 85 percent of IMF's voting power would have to approve any sale of gold. Securing approval would be a difficult process because the United States has about 20 percent of the voting power within the IMF.

Currency Rates

Cross Rates

Sept. 25

	$	£	D.M.	F.F.	I.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	2.049	3.3575	1.1254	0.3376	0.156 *	—	5.422 *	1.357	1.4043 *
Brussels(a)	37.79	61.8025	20.7535	6.224	2.8759 *	18.4415	—	25.025	0.2628
Frankfurt	1.8207	2.988	—	0.2999	0.1386 *	0.8886	4.817 *	1.2058	1.2665 *
London (b)	1.6425	—	2.9888	9.9775	2,156.50	3.3658	62.02	2.483	234.07
Milan	1,314.40	2,151.50	721.71	216.35	—	641.16	34.765	870.11	9.132
New York(c)	—	1.6425 b	1.821	6.072	1,314.50	2.049	37.79	1.511	143.55
Paris	6.0725	9.946	3.3349	—	[illegible] *	2.9632	0.1607	4.01	4.2212 *
Tokyo	143.25	235.02	78.85	23.65	0.1094	70.13	3.8024	95.19	—
Zurich	1.5118	2.4781	0.8298	0.249	0.1149 *	0.7372	3.9982 *	—	1.0558 *
1 ECU	1.1391	0.6963	2.076	6.921	1,498.17	2.3365	43.0085	1.7223	163.97
1 SDR	[illegible]	0.7863	2.346	7.8273	1,691.87	2.6391	48.6731	1.9449	185.277

Closings in London, Tokyo and Zurich, fixings in other centers. New York rates at 4 P.M. a: Commercial franc; b: To buy one pound; c: To buy one dollar; *: Units of 100; N.Q.: not quoted; N.A.: not available.

Other Dollar Values

Currency	Per $	Currency	Per $	Currency	Per $	Currency	Per $
Argen. austral	[illegible]	Fin. markka	4.386	Mex. peso	1557.00	S. Afr. rand	2.0492
Austral. $	1.3783	Greek drac.	139.00	N. Zealand $	1.553	Soviet ruble*	0.6306
Austr. schil.	12.81	Hong Kong $	7.805	Nig. naira*	4.1805	Span. peseta	121.50
Belg. fin. fr.	38.00	Indian rupee	13.00	Norw. krone	6.6626	Swed. krona	6.3945
Brazil cruz.	50.28	Indo. rupiah	1647.85	Phil. peso	20.65	Taiwan $	38.71
Canadian $	1.314	Irish £	0.6798	Port. escudo	143.45	Thai baht*	25.715
Chinese yuan*	3.7221	Israeli shek.	1.6036	Saudi riyal*	3.7505	Turkish lira	925.22
Danish krone	7.012	Kuwaiti dinar*	0.2811	Sing. $	2.0905	UAE dirham*	4.673
Egypt. pound	2.1627	Malay. ring.*	2.522	S. Kor. won	806.20	Venez. boliv.	33.30

New York rates unless marked * (fixing rates)

Forward Rates

Currency	30-day	60-day	90-day	Currency	30-day	60-day	90-day
Pound Sterling	1.6367	1.6335	1.6302	Canadian dollar	1.3158	1.3178	1.3200
Japanese yen	143.29	143.00	142.64	Swiss franc	1.5049	1.5016	1.4970
Deutsche mark	1.8141	1.8105	1.8065				

Sources: Indosuez Bank (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Gosbank (ruble). Other data from Reuters and AP.

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

			Ch'ge
United States			
DJ Indus.	2,570.17	2,524.64	+ 1.80 %
DJ Util.	195.23	194.17	+ 0.55 %
DJ Trans.	1,032.19	1,013.83	+ 1.91 %
S & P 100	314.98	303.38	+ 2.79 %
S & P 500	320.15	314.86	+ 1.68 %
S & P Ind	373.89	368.04	+ 1.59 %
NYSE Cp	179.14	176.36	+ 1.58 %
Britain			
FTSE 100	2,342.60	2,328.30	+ 0.61 %
FT 30	1,831.60	1,833.20	— 0.09 %
Japan			
Nikkei 225	25,095.86	24,844.94	+ 1.01 %
West Germany			
Commerzbk	1,959.20	1,973.10	— 0.71 %
Hong Kong			
Hang Seng	3,840.11	3,649.36	+ 5.21 %
World			
MSCIP	479.50	476.90	+ 0.55 %

World index From Morgan Stanley Capital Int'l.

Money Rates

	Sept. 25	Sept. 18
United States		
Discount rate	6	6
Federal funds rate	7 15/16	7 1/16
Prime rate	8¾	8¾
Japan		
Discount	2½	2½
Call money	3½	3¼
3-month interbank	3 13/16	3 11/16
West Germany		
Lombard	5	5
Call money	3.60	3.70
3-month interbank	4.00	4.00
Britain		
Bank base rate	10	10
Call money	11	10
3-month interbank	9⅝	9 [illegible]

Gold	Sept. 25	Sept. 18	Ch'ge
London p.m. fix.$	461.80	461.70	+ 0.02 %

Bid for Irving Reflects Hostile Bank Mood

By Robert A. Bennett
New York Times Service

NEW YORK — Although Bank of New York Co. jolted the banking world by making a hostile offer to acquire Irving Bank Corp., the move seems right in step with the recent development of the U.S. industry.

Banking is no longer the genteel industry it once was. Competition

NEWS ANALYSIS

has become fierce as banking's share of the corporate-loan market has shrunk and new, nonbank institutions have begun offering consumer-banking services.

Today, few bankers see themselves as members of an elite club more interested in being statesmen than in making money.

"A move is not unbanker-like if it helps stockholders, employees and customers," said J. Carter Bacot, chairman of Bank of New York, in an interview after the bid was announced Friday.

Bank of New York's $1.04 billion offer for Irving must be approved by a number of regulatory agencies, but the idea of a merger between two large banks in the same market no longer seems as outrageous as it once did.

Last year, regulators allowed an even bigger $1.07 billion merger between two leading San Francisco banks, Wells Fargo & Co. and Crocker National Corp.

But a top officer of a leading New York bank said, "This is not what one would expect of a New York bank. It's a shame."

"They've changed the name of the game in bank mergers and acquisitions to 'hostile,'" said James J. McDermott Jr., chief bank stock analyst at Keefe, Bruyette & Woods.

Although hostile takeover attempts remain rare in American banking, big bank mergers have become common, especially when they involve organizations in different states. But most of the regional pacts that allow such combinations exclude New York-based banks because of fears that local banks would be gobbled up by New York's giant institutions.

Neither Bank of New York nor Irving is among the city's giants, but because they are in New York they are still excluded from entering other regions.

Mr. Bacot, however, has tried to test those limits. In 1983, the Bank of New York sought to merge with Northeast Bancorp Inc. of Connecticut. The proposed merger became a test case that went to the U.S. Supreme Court, which held that the regional compacts and their exclusionary features were constitutional.

The Bank of New York still holds an option to buy Northeast if and when that is allowed by Connecticut law.

The proposed merger of Bank of New York and Irving would combine two institutions rich in history. Banking history has its disputed areas, so the Bank of New York is either the oldest or second-oldest bank in the United States.

Founded in 1784 by Alexander Hamilton, who later served as the first U.S. Treasury secretary, it is clearly the oldest in New York.

Mr. Bacot is known for a willingness to shift strategies. Years ago, Bank of New York bought a number of banks in upstate New York cities, including Syracuse, Buffalo and Albany. But after Mr. Bacot decided that the bank should concentrate on New York City's suburbs, not the city itself, the upstate units were sold.

Irving has upstate banking subsidiaries that are among its most profitable units, but Mr. Bacot indicated when the takeover move was announced that they would be sold.

Irving is considered in banking circles to be a sleepy organization.

Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London. Tel.: 01-623-1277.
Prices may vary according to market conditions and other factors.

Sept. 25

Dollar Straights

Issuer	Cpn	Mat	Price	Yld Mat	Spd Trsy
Australasia					
Aust Com Bk	12¾	89	105⅝	9.39	+73
Aust Com Bk	10	93	99	10.22	+93
Australia	11	95	102⅝	10.46	+98
Australia	11½	95	105¼	10.50	+93
Australia	11¼	00	102⅞	10.88	+142
N S Wales Trsy	11¾	90	104½	9.64	+90
New Zealand	7¼	89	96½	9.29	+67
New Zealand	7¾	90	95½	9.48	+91
New Zealand	7½	91	92½	9.88	+91
New Zealand	7⅝	91	92¼	10.03	+103
New Zealand	8	93	90⅝	10.23	+106
New Zealand	8¼	92	92	10.38	+100
New Zealand	10¼	95	97¼	10.80	+126
New Zealand	8	97	84⅞	10.61	+83
Qantas	10⅝	95	99⅛	10.53	+100
Qantas	8⅝	96	89¼	10.59	+98
Queensland	11⅝	89	103⅝	9.44	+77
Queensland	8	91	94	9.99	+105
Queensland	7¼	92	90	10.10	+105
Queensland	10¼	95	98⅛	10.60	+106
St Bk Sth Aust	10¼	92	101½	9.85	+82
St Bk Sth Aust	9¼	93	96¼	10.17	+99
Sth Aust Gov	8⅝	93	94⅝	10.17	+98
Victoria Sec 5	10	92	99¾	10.05	+90
Victoria P	11⅛	93	105⅝	10.00	+94
Victoria Sb	8½	93	92⅛	10.24	+112
Victoria Publ	8⅝	94	87⅞	10.40	+88
Canada					
B C Hydro	15¼	92	119⅝	9.86	+79
B C Hydro	11¾	93	107⅞	10.11	+83
Canada	11½	90	104¾	9.21	+49
Canada	10	95	99⅛	10.15	+57
Canada	9	96	94⅛	10.05	+43
Canadair	13½	89	106⅛	9.16	+51
Canadian Pacif	12½	90	107½	9.83	+70
Canadian Pacif	10⅝	93	102¼	10.19	+136
Canadian Pacif	7½	96	84⅝	10.24	+71
E D C	12	89	105⅝	9.03	+39
E D C	10	90	101⅛	9.27	+49
E D C	8½	92	95⅛	9.84	+82
Farm Credit	7½	90	89	9.97	+68
Farm Credit	7⅝	96	85	10.44	+78
Manitoba	11¾	89	104½	9.29	+64
Manitoba	10½	90	102⅛	9.48	+71
Manitoba	8¾	91	97⅛	9.42	+74
Manitoba	12½	94	110⅛	10.32	+90
Manitoba	7½	96	83⅛	10.53	+88
Olymp York	10⅝	95	97⅝	10.85	+124
Olymp York	8¼	96	86½	10.49	+102
Ontario Hydro	11¼	89	104	9.15	+46
Ontario Hydro	10¼	90	102	9.37	+56
Ontario Hydro	11¾	90	105¾	9.44	+60
Ontario Hydro	13½	91	110¾	9.40	+71
Ontario Hydro	12¾	92	111⅛	9.75	+62
Ontario Hydro	15	92	119½	9.74	+64
Ontario Hydro	11⅛	94	104⅛	10.24	+91
Petro-Canada	7¼	96	82⅝	10.38	+73
Prov Albert	7⅝	91	92⅛	9.65	+65
R B C	8⅝	97	92	10.38	+105
Saskatchew	11⅛	89	104⅛	9.41	+76
Saskatchew	10¾	90	102¾	9.48	+73

Issuer	Cpn	Mat	Price	Yld Mat	Spd Trsy
Toyota	7	89	96⅛	9.03	+37
Toyota	8⅝	90	98½	9.24	+47
Toyota	8⅝	90	98⅝	9.36	+44
Toyota	7¼	92	90⅛	9.91	+89
Yasuda Tst	8½	93	92½	10.28	+104
Yasuda Tst	10⅛	95	99	10.49	+114
Scandinavia					
Denmark	7	89	96½	9.08	+47
Denmark	11¼	89	102⅞	9.14	+102
Denmark	11½	90	104⅛	9.59	+84
Denmark	8¼	91	95⅝	9.75	+81
Denmark	12	91	105¾	9.98	+101
Denmark	13	91	108⅞	9.93	+101
Denmark	13⅛	91	110⅛	9.97	+99
Denmark	7⅛	92	89⅝	10.04	+100
Denmark	11½	92	105⅛	9.99	+94
E E K	9⅝	93	98⅛	9.97	+79
Exportfinans	7¼	92	90¼	9.97	+95
Exportfin	11¼	92	104⅛	10.03	+98
N I B	7½	93	89⅝	9.96	+75
S A S	10⅛	95	97	10.48	+110
Exportfin	7⅝	93	88⅝	10.27	+101
Sweden	8⅝	94	91⅛	9.98	+59
Norsk Hydro	8	96	84⅝	10.81	+117
Exportfinan	7⅝	96	84⅛	10.43	+80
Forsmarks	8⅝	91	97	9.80	+92
N I B	7½	91	93	9.45	+46
N I B	8⅝	91	95⅝	9.87	+97
Norsk Hydro	10	93	98½	10.34	+109
Sweden	8⅝	96	89¼	10.33	+70
Norsk Hydro	8½	91	97½	9.37	+58
Norsk Hydro	7	92	88⅝	10.12	+112
S E K	7½	93	90⅝	9.86	+66
N I B Ser A	9⅛	96	94½	10.42	+99
Norway	7¼	91	92¾	9.56	+60
Sweden	11¾	94	106⅞	10.20	+94
S E K	11½	89	103⅝	9.22	+35
S E K	6⅝	90	94⅛	9.49	+77
S E K	7¼	91	91⅝	9.72	+80
S E K	[illegible]	91	97¼	9.56	+67
S E K	10	92	101¼	9.63	+55
Denmark	7¼	93	89⅝	10.22	+102
Sweden	10¼	92	101½	9.85	+71
Statoil	7⅝	94	87⅛	10.47	+114
Saab Scania	9⅛	91	99⅛	9.44	+76
Saab Scania	7¾	92	91⅜	10.21	+116
Skandia Ins	9⅝	97	90⅛	10.10	+106
Statoil	7	89	96⅞	9.14	+106
Statoil	13½	89	106⅞	9.17	+71
Statoil	10	90	100⅛	9.72	+91
Exportfinan	7⅝	93	88⅝	10.18	+88
Exportfin	10	96	98⅝	10.34	+63
Sweden	11½	89	104¼	9.36	+59
Sweden	12⅛	89	104⅝	8.94	+84
Sweden	10⅝	90	103⅛	9.31	+54
Sweden	7	91	91⅞	9.55	+57
Sweden	7	92	90⅝	9.48	+45
Sweden	8½	92	95⅛	9.79	+48
S E K	7⅛	94	87⅞	10.21	+87
Statoil	9¼	96	92¼	10.71	+111
Supranational					
Council Europe	8	96	86⅛	10.47	+79
Council Eur	9⅝	96	94⅛	10.44	+82
E C S C	11⅞	90	104⅛	9.29	+60

Issuer	Cpn	Mat	Price	Yld Mat	Cur Yld
Italy	5⅝	92	98⅝	5.74	5.47
Itt Corp	6¾	92	103⅜	5.84	6.53
Jap Govmt Bond	5⅛	96	96⅝	5.80	5.28
Kansai Elec	4⅝	94	92⅞	6.06	5.01
M M M	5¾	91	100¼	5.66	5.74
Mcdonalds	6½	92	102¾	5.75	6.33
Montreal City	6⅞	95	104⅝	6.06	6.57
Morgan J P	6	94	99⅝	6.04	6.02
N I B	6	91	101⅜	4.54	5.92
N I B	4⅞	92	96½	5.77	5.05
N I B	7	92	105⅝	5.77	6.64
N I B	5¾	95	97½	6.16	5.90
New Brunswick	7⅛	95	105¾	6.16	6.74
New Zealand	7⅝	89	104½	5.14	7.30
New Zealand	7⅛	90	105	5.34	6.79
New Zealand	5⅝	91	99⅛	5.73	5.55
New Zealand	4¾	95	91⅝	6.14	5.18
Nippon T&T	5¾	93	99⅝	5.87	5.79
Nippon T&T	5⅞	96	98½	6.11	5.97
Nord Landesbk	6½	93	102½	5.94	6.34
Norway	5⅝	91	99⅝	5.55	5.41
Norway	4¼	92	93⅞	5.83	4.53
Pac Gas	7	94	104¼	6.23	6.71
Penney Jc	6⅝	92	103½	5.80	6.52
Philip Morris	6½	91	102¼	5.73	6.36
Postipankki	6½	91	103⅝	5.37	6.29
Postipankki	5¾	93	100⅝	5.66	5.73
Postipankki	5⅛	94	95¼	6.03	5.38
Postipankki	6⅝	96	102¼	6.27	6.48
Proct & Gamble	6	91	101⅝	[illegible]	[illegible]
Proct & Gamble	6⅝	92	102⅝	5.72	6.41
Proct & Gamble	5¾	93	98⅝	5.98	5.82
Quebec Hydro	6⅝	94	103½	6.01	6.42
S E K	6	91	101¼	5.59	5.92
S E K	6⅝	96	103	6.15	6.43
S N C F	6⅝	93	94⅝	6.00	6.15
Sallie Mae	6⅝	92	100	5.81	6.43
Sears	6⅞	91	103⅝	5.81	6.63
Sweden	5⅝	91	99⅝	5.54	5.41
Sweden	5½	91	100⅛	5.46	5.49
Sweden	4⅜	92	94	5.85	4.65
Sweden	5¼	94	96¼	5.98	5.46
Sweden	5⅝	95	96½	6.19	5.83
Sweden	6	96	99⅛	6.13	6.05
T R W Inc	7	94	101⅝	6.70	6.89
Tokyo Elect P	4⅞	92	96½	5.77	5.05
Utd Tech	6⅝	92	103	5.80	6.43
Walt Disney	6⅝	96	101¼	6.44	6.55
World Bk	6⅝	90	103⅝	5.17	6.41
World Bk	7⅝	93	108⅝	5.86	7.00
World Bk	4⅝	94	94⅛	5.99	5.18

Issuer	Cpn	Mat	Price	Yld Mat	Cur Yld
World Bk	6⅝	94	102⅞	6.11	6.44
World Bk	7	94	105	6.05	6.67
World Bk	5⅝	96	97⅝	6.10	5.89
World Bk	6½	96	102⅛	6.10	6.34

Treasury Bonds

Sept. 25

Maturity	Close Bid	Close Ask	Yield	Wk.-ago yield
31.7.89	98 25/32	98 26/32	8.32	8.15
15.8.90	97 24/32	97 26/32	8.75	8.59
31.3.91	96 21/32	96 23/32	[illegible]	8.75
15.11.92	97 4/32	97 6/32	9.07	8.84
15.4.94	93 10/32	93 12/32	9.34	9.19
15.8.97	94 11/32	94 13/32	9.51	9.38
15.2.06	96 20/32	96 24/32	9.76	9.64
15.8.17	[illegible]	92 6/32	9.67	9.56

Source: Salomon Inc.

Euromarts At a Glance

Eurobond Yields

	Sept.23	Sept.16
U.S. $, int'l inst., 5 yrs & over	10.02	10.02
public issuers, 5 yrs & over	9.98	9.85
other issuers, 5 yrs & over	10.04	9.99
other issuers, 3 to 5 yrs	9.53	9.42
Pounds sterling, 5 to 7 yrs	10.28	10.57
French francs, less than 5 yrs	10.10	10.06
ECU, 5 yrs & over	8.93	8.90
5 to 7 yrs	8.58	8.52
Can. $, 5 to 7 yrs	11.06	10.97
Aus. $, 5 to 7 yrs	13.80	13.34
N.Z. $, less than 5 yrs	16.42	16.28
Yen, 5 yrs & over	6.28	6.29
5 to 7 yrs	5.94	5.85

Source: Luxembourg Stock Exchange.

Weekly Sales

Sept. 24

Primary Market

	Cedel $	Cedel Nons	Euroclear $	Euroclear Nons
Straights	282.70	532.10	1,082.30	2845[illegible]
Convert.	133.90	281.20	818.10	73[illegible]
FRNs	—	—	—	1045[illegible]
ECP	760.40	130.70	4,639.00	284.10
Total	1177.00	934.05	6,480.40	780.60

Secondary Market

	Cedel $	Cedel Nons	Euroclear $	Euroclear Nons
Straights	7,884.40	10,772.80	15,483.20	8,416.40
Convert.	668.40	822.80	1,782.60	665.70
FRNs	2,019.90	1,686.40	9,422.70	4,451.50
ECP	2,672.10	48.90	2,469.10	137.60
Total	13,244.80	12,898.50	29,257.70	18,871.00

Source: Euroclear, Cedel.

Libor Rates

Sept. 25

	1-month	3-month	6-month
U.S. $	7⅝	7⅞	7 11/16
Deutsche mark	4	4⅛	4 9/16
Pound sterling	10	10⅛	10 7/16
French franc	7 13/16	8⅛	8 9/16
ECU	7 1/16	7 3/16	7⅝
Yen	3 11/16	4 11/16	4⅝

Source: Morgan Guaranty, Lloyds Bank, Reuters.

Wall Street Review

NYSE Most Actives

	Vol.	High	Low	Last	Chng.
NwtM s	264341	99½	91½	95	−4½
AT&T	166397	34¼	31⅞	33⅝	+1⅝
IBM	112581	158⅝	149⅝	156	+ ⅝
Marion s	99096	35½	28½	34⅜	+ ⅛
Exxon s	88292	49⅝	46	48⅝	+2⅝
GenEl s	85919	62⅜	58⅞	61⅛	+1⅛
DrvStr n	84924	9⅞	9⅝	9⅝	
NtSemi	84893	19⅛	17	19	+1⅛
Daythd	79991	59⅝	56⅛	59	+1
Gap s	79269	46⅛	35⅜	36⅞	−10⅝
Upjohn s	77410	44½	41⅝	44⅜	−1½
SFeSoP	76242	59⅝	57⅝	58	+1
CmwE	72808	32⅛	30⅛	31⅛	+ ⅜
FordM	71161	104⅝	97	97¼	−6⅝
WalMt s	68399	37⅝	34⅛	37⅛	+ ⅞
PacTel s	65110	32	30⅞	31⅛	+ ⅝
Chrys s	57858	45	40½	41⅛	−2⅝
Limited	57035	37	34⅝	35⅝	− ½
USX	55799	37⅝	35	36⅝	+1⅛
Rebok s	55065	18⅛	15⅛	16½	−2
EKodk	53090	101⅝	95⅝	100⅝	+1⅝
PhilPet	51804	17⅛	15⅝	16⅝	+ ⅛
RochG	51207	17⅝	17	17⅝	+ ⅛
Gillete s	48238	45⅝	40⅛	42	+ ⅛
UnTex n	48012	14⅝	14⅛	14⅛	

AMEX Most Actives

	Vol.	High	Low	Last	Chng.
Amdahl	20361	48⅝	43⅛	47⅝	+3⅝
HmeSh s	19888	14	11⅛	11⅝	−2⅝
Telesph	19817	7	5⅛	6⅝	− ⅛
EchB a s	18337	29⅝	28	29⅛	+ ⅝
WDigitl	17700	24⅛	21½	22⅝	− ⅛
TexAir	14589	26⅛	24⅛	[illegible]	+1
NY Time	12540	42⅛	39⅝	41½	+ ⅛
WangB	10778	18	17⅛	17⅝	− ⅛
EngSvc	8720	6⅝	5⅝	6⅛	+ ⅛
Hasbr s	8273	24⅝	21½	22	−3⅝
FAusPr	8101	9⅛	8⅛	8⅝	
Alfin s	7233	6⅞	5⅛	5⅝	− ⅛
CFCda	6913	6⅝	6⅛	6⅝	+ ⅛
Delmed	6669	1⅝	1⅛	1⅛	− ⅛
LorTel	6549	16⅛	16⅛	16⅛	− ⅛
Alza	6473	40⅝	34⅛	40⅝	+ ⅛
TIE	6159	8⅛	6⅝	8⅛	+ ⅛
DataPd	6038	12¼	10¼	11⅛	+ ⅛
FruitL n	6022	7⅝	7	7⅝	+ ⅛
Asmr g	5384	9⅛	8⅝	9⅛	+ ⅛
Viacm pf	5317	25⅝	24⅝	25	− ⅛
ComCr s	4608	28⅛	22⅛	27⅝	−1½
A-ctrl2 sc	4568	12⅝	11⅝	12⅝	+ ⅛
Viacm n	4330	25⅛	24⅝	25	+ ⅛
Alarl s	4317	11⅛	9⅝	10⅝	− ⅛

NYSE Diaries

	This Wk	Last Wk
Advanced	1044	606
Declined	849	1333
Unchanged	283	229
Total Issues	2176	2168
New Highs	125	98
New Lows	202	124

AMEX Sales

	Sales Vol.
Total for week	65,038,000
Week ago	58,430,000
Year ago	44,130,000
Jan 1 to date	2,651,040,000
1986 to date	1,499,550,000

NYSE Sales

	Sales Vol.
Total for week	899,960,000
Week ago	825,140,000
Year ago	642,760,000
Two years ago	400,880,000
Jan 1 to date	33,614,340,330
1986 to date	26,217,100,000
1985 to date	19,392,980,000

AMEX Diaries

	This Wk	Last Wk
Advanced	411	334
Declined	443	499
Unchanged	161	188
Total Issues	1015	1021
New Highs	46	84
New Lows	75	69

Listing above does not include floating rate notes or convertibles.
Coupon, price and yield are expressed in percent.
For dollar-denominated issues, Spd/Trsy is differential between yield to maturity of bond and yield on U.S. Treasury's issues with the same maturity, expressed in basis points.
Prices and yields are all on a bid basis.
Pp: private placement.
W/w: with warrants.
X/w: ex warrants.

Yen Straights

Dollar Zero Coupons

DM Straights

DM Zero Coupons

ECU Straights

Issuer	Cpn	Mat	Price	Yld Mat	Spd Trsy
N C B	8	93	89⅝	10.44	+118
N C B	10⅝	95	98⅝	10.46	+115
N C B	10⅝	98	99⅝	10.46	+107
Nippon T&T	7½	94	87⅝	10.28	+95
Nomura Intl	7⅝	92	89⅝	10.13	+107
Panasonic	9	92	96⅝	9.89	+78
Sanwa Intl Fin	11½	92	104⅝	10.11	+103
Sumitomo	10⅝	90	102⅛	9.83	+106
Sumitomo 2	7⅝	91	92⅝	10.09	+110
Sumitomo	12¾	91	107⅝	10.02	+111
Sumitomo Bk	7½	92	90⅝	10.17	+113
Sumitomo	11¼	92	105⅝	10.08	+104
Taiyo Kobe 2	7⅝	94	96⅝	8.39	+93
Tokai Asia	11½	95	104	10.48	+117
Tokai Bank	7½	91	92⅛	10.01	+109

Issuer	Cpn	Mat	Price	Yld Mat	Spd Trsy
Ford Motor	8	89	99	8.89	+17
Ford Motor	8⅝	90	98⅝	9.42	+64
Ford Motor	11⅝	90	103⅝	9.84	+83
Ford Motor	7⅝	91	92⅝	9.74	+76
Ford Motor	10½	91	102¼	9.79	+80
Ford Motor	12⅝	91	107	10.44	+73
Ford Motor	11¾	92	106⅛	9.98	+92
Ford Motor	12	95	106⅝	10.58	+101
Ford Motor	11	96	102⅝	10.44	+84
G E C	8⅝	92	95	9.96	+78
General Re	11⅛	92	104⅝	10.25	+122
GMAC	8	89	98⅝	9.03	+48
GMAC	8¼	89	99	8.85	+47
GMAC	10¼	89	101⅛	9.10	+85

American Exchange Options

Figures as of close of trading Friday.

Sept. 25

Option & price		Calls Oct	Calls Nov	Puts Oct	Puts Nov
A M R	50	r	6	⅛	½
55⅝	55	1⅝	2⅝	1⅝	1⅞
55⅝	60	9-16	1	5⅝	r
55⅝	65	r	⅛	r	r
55⅝	70	r	3-16	r	r
A S A	55	8	9½	s	⅛
63⅝	60	4⅛	5⅞	⅛	1 9-16
63⅝	65	1 5-16	2 9-16	2⅝	3⅛
63⅝	70	5-16	1⅛	r	7⅝
63⅝	75	s	9-16	s	r
Aetna	55	r	5⅛	1-16	r
59⅝	60	⅞	r	1	2⅛
59⅝	65	⅛	r	s	r

Option & price		Calls		Puts	
Cetus	22⅝	r	r	r	⅛
25⅝	25	1	r	13-16	r
25⅝	30	1-16	⅛	4⅝	r
25⅝	35	1-16	s	9⅝	s
Chase	40	5-16	⅛	r	r
ChemNY	35	r	r	r	⅛
36⅝	40	⅛	r	3	r
36⅝	45	1-16	s	r	s
ChemW	35	r	1⅛	r	r
Chevrn	50	3⅛	4	⅛	r
53⅛	55	⅛	1½	2	r
53⅛	60	⅛	s	r	s
ChiChi	7½	1	r	r	r

Option & price		Calls		Puts	
GoldNg	10	2⅝	3	r	1-16
13	12½	11-16	15-16	⅛	9-16
13	15	r	⅛	r	r
Goodyr	70	3⅝	r	1⅝	1⅞
70⅝	75	⅛	1⅛	4	r
Gould	17½	6	s	r	s
23⅝	20	3⅝	r	1-16	r
23⅝	22½	1 9-16	2⅛	⅛	r
23⅝	25	⅛	⅛	r	r
Grace	65	r	3⅝	⅛	r
66⅝	70	⅛	1⅛	r	r
Greyhd	30	10⅝	s	r	s
40⅝	35	5⅝	s	r	s

INTERNATIONAL POSITIONS

You will find below a listing of job positions published last Thursday under the rubric International Positions.

TITLE	SALARY	EMPLOYER
DIRECTOR - MARKET MANAGER AUTOMOTIVE	competitive	Grace Industrial Chemicals, Inc.
DIRECTOR & ASSOCIATE DIRECTOR	S.Fr. 33,000 p.a.	League of Red Cross
EXECUTIVE SOUS-CHEFS	attractive	Holland America Line - Westours

If you haven't seen last week's **INTERNATIONAL POSITIONS** rubric, please ask for a free copy: Max Ferrero, **INTERNATIONAL HERALD TRIBUNE, 92521 Neuilly Cedex, France.**
Tel: (1) 46.37.93.81. Telex: 613595

New International Bond Issues

Compiled by Laurence Desvilettes

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
Bank of China	$200	1992	1/16	100	98.85	Over 6-month Libor. Noncallable. Fees 0.20%. Denominations $10,000.
Sprint	$30	1992	0.20	100.10	—	Over 6-month Libor. Noncallable. Fees 0.10%. Denominations $100,000.
Council of Europe Resettlement Fund	DM 150	1995	libor	100	100.00	Interest will be pegged to 6-month Libor. Callable at par in 1992. Exchangeable at 101 in 1989 and 1990 for noncallable 6⅜% bonds due 1995. Fees 0.35%.
Bank of New Zealand	NZ$ 400	1992	½	100.10	—	Below the 90-day bank bill rate. Redeemable at par on every interest payment date. Fees 0.10%. Denominations NZ$5 million.
FIXED-COUPON						
American General	$150	1994	9	100¾	98.38	Redeemable at par in 1990. Fees 1⅜%.
American Telephone & Telegraph	$100	1990	9¼	112¾	110.63	Each $5,000 note with five 2-year warrants exercisable into gold at $463 per ounce. Fees 1⅜%.
Ford Motor Credit	$200	1990	9⅝	101¼	98.75	Noncallable. Fees 1⅜%.
Solvay	FF 500	1992	10½	101⅝	99.38	Noncallable. Fees 1⅜%.
Stockholm City	DK 444	1991	10⅝	100¾	98.50	Noncallable. Fees 1⅜%.
WestLB Finance	DK 300	1993	10½	99¾	97.88	Noncallable. Fees 1⅜%.
European Investment Bank	ECU 75	1994	8⅛	99¾	97.63	Noncallable. Fees 1⅜%.
Avco Financial Services Canada	C$ 75	1992	11⅛	100¾	98.50	Noncallable. Fees 1⅜%.
Federal Business Development Bank	C$ 50	1991	10¼	113½	112.75	Noncallable. Each C$5,000 note with 5 warrants, each exercisable from 1989 into one ounce of gold at $463.15 per ounce, a 25% premium. Fees 1⅜%.
Olympia & York EurocreditCo	C$ 100	1992	11⅛	101.35	98.85	Noncallable. Fees 1⅜%.
Prudential Funding	C$ 120	1992	11⅛	101⅝	98.50	Noncallable. Fees 1⅜%.
Deutsche Bank Australia	Au$ 125	1990	12⅝	101½	100.60	Noncallable. Fees 1½%.
BHF-Bank Finance (Jersey)	NZ$ 75	1990	17¼	101½	99.00	Noncallable. Fees 1½%.
LB Schleswig Holstein Finance	NZ$ 50	1990	17	101½	100.13	Noncallable. Fees 1½%.
Toronto Dominion (Grand Canyon)	NZ$ 60	1989	17½	101½	100.00	Noncallable. Fees 1⅜%.
EQUITY-LINKED						
Asahipen	$ 30	1992	open	100	—	Coupon indicated at 3½%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 1.
CDC Life Sciences	$ 75	2002	5¼	100	98.75	Callable at 103 in 1990. Convertible at $24¼ per share, a 24.36% premium. Fees 2½%.
C. Itoh Fuel	$ 50	1992	open	100	97.50	Coupon indicated at 3½%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 1.
Commercial Credit Company	$100	1994	5¾	100	99.00	Callable in 1990. Convertible at $40.45 per share, a 19.80% premium. Fees 2½%.
Costain Group	$ 50	1992	7⅛	99¾	99.00	Each $10,000 note with 834 warrants, priced at 67 pence each, exercisable into shares at 421 pence per share, a 28% premium. Fees 2¼%.
Hazama-Gumi	$ 50	1992	open	100	97.50	Coupon indicated at 3⅜%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 1.
Keppel	$ 75	1997	open	100	99.00	Coupon indicated at 2¾ to 3%. Callable at 102 in 1992. Convertible at an expected 4 to 6% premium. Fees 2½%. Terms to be set Sept. 29.
Koyo Seiko	$ 60	1992	open	100	97.50	Coupon indicated at 3½%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Sept. 29.
Morita Fire Pump Manufacturing	$ 25	1992	open	100	—	Coupon indicated at 3⅝%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Sept. 30.
Nippon Credit Bank	$150	2002	1¼	100	98.00	Callable at 103 in 1992. Convertible at 13,738 yen per share. Fees 2½%. $100 million issued in Europe and $50 million issued in Asia.
Stanley Electric	$100	1992	3¼	100	98.50	Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 925 yen per share and at 145.15 yen per dollar. Fees 2¼%.
Sumitomo Electric Industries	$200	1992	open	100	98.00	Coupon indicated at 3⅛%. Noncallable. Each $10,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Sept. 30.
Taio Paper Manufacturing	$ 70	1992	open	100	97.50	Coupon indicated at 3⅜%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Sept. 30.
Taisei Prefab Construction	$ 40	1992	open	100	97.50	Coupon indicated at 3⅜%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Sept. 28.
Electrowatt Finance BVI	DM 150	1994	3¼	100	—	Each 1,000-mark note with one 5-year and one 6-year warrant, each exercisable into one participation share of Electrowatt AG, at 340 Swiss francs and at 350 francs respectively. Fees 2½%.
Minolta Camera	DM 200	1997	zero	100	96.75	Redeemable at 107⅜ in 1992 to yield 1.53%. Convertible at an expected 5% premium. Fees 2½%. Terms to be set Oct. 1.
Argyll Group	£ 60	2002	4½	100	100.50	Redeemable at 123⅜ in 1992 to yield 8.47%. Convertible at 295 pence per share, a 26.07% premium. Fees 2½%.
London Int'l Group	£ 50	2002	4½	100	99.00	Redeemable at 120.70 in 1992 to yield 8.51%. Convertible at 452 pence per share, a 25.91% premium. Fees 2½%.

Malaysia Sees Palm-Oil Sector Threatened by U.S., EC Moves

هكذا من الأصل

By Michael Richardson
International Herald Tribune

TROLAK, Malaysia — All around Ramli bin Yusopp's modest wooden house, as far as the eye can see, oil palm trees planted in neat rows cover the moist tropical earth with a quilt of dark green foliage.

The trees are like coconut palms, but shorter and more luxuriant. The clumps of fruit, similar to bunches of orange colored dates when they ripen at this time of year, are a major source of income for Mr. Ramli and for Malaysia.

Exports of palm oil extracted from the fruit earned Malaysia $1.5 billion in 1986, about 10 percent of its total export revenue.

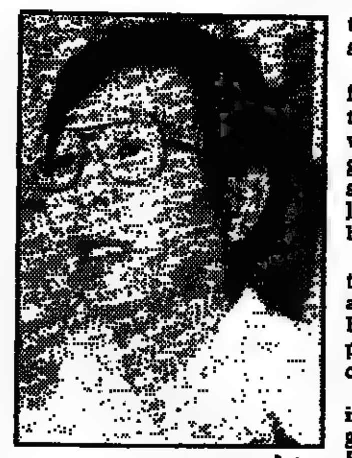
Palm oil is the country's third most valuable export after crude oil and natural gas and timber. In a recent report, the International Monetary Fund said that Malaysia's share of total world palm oil production had doubled, to 60 percent, since 1971.

Malaysian palm oil, used for cooking and for blending with other edible oils in foods such as margarine, has captured 35 percent of the global trade in oils and fats, according to Dr. Lim Keng Yaik, Malaysia's minister of primary industries.

"We have won that share because we are cost-efficient producers of a good product that we have marketed aggressively," Mr. Lim said in an interview.

In a recent report, the Bernama news agency said that Malaysia's crude palm oil production was 16 percent higher in August, at 491,079 metric tons (540.2 short tons), than a year earlier, according to official figures. Exports rose nearly 9 percent to 17,136 tons in July, from 15,743 in June.

But now, according to Mr. Lim, this important industry, which accounts for 30 percent of all Malaysian land under cash-crop cultivation and the livelihood of thousands of small farmers, is under threat.



Reuters

Lim Keng Yaik

Proposals on vegetable oils by the United States and the European Community could undermine the Malaysian industry and that of other Third World producers, Mr. Lim said.

The EC proposed earlier this month to raise an existing 12 percent import duty on vegetable oils, while a U.S. Congressional committee has begun hearings on a bill to label palm oil, palm kernel oil and coconut oil as saturated fats when used in food products. Saturated fats have been linked with an increased risk of heart disease.

Mahathir bin Mohamad, Malaysia's prime minister, asserted earlier this month that those plans amounted to an attack on free trade.

Malaysia and its five partners in the Association of South East Asian Nations, have joined forces to oppose the EC and U.S. measures.

The ASEAN countries account for the overwhelming proportion of the world's palm oil. Indonesia, which accounted for 17 percent of global production in 1986, is the second-largest producer after Malaysia, while the Philippines is the biggest exporter of coconut oil.

Jose V. Romero Jr., chairman of the Philippine Coconut Authority, a government body, said 17 million Filipinos, about 30 percent of the population, are involved in the coconut industry.

Many of them are poor and live in areas where Communist insurgents fighting to overthrow the Philippine government have made gains in recent years.

The tropical oil industries play a vital role in the economic life of the Philippines, Malaysia and Indonesia.

The price that farmers like Mr. Ramli get for their edible oil often means the difference between poverty and tolerable subsistence.

"What we are talking about is the livelihood and income of our smallholder farmers," said Alladin Hashim, director-general of a Malaysian government land settlement program.

That program has provided Mr. Ramli and about 600,000 other people with access to farmland and cash crops.

Mr. Alladin said the program had helped reduce rural poverty and landlessness, and counter the appeal of the once-powerful communist movement in Malaysia.

He said that small farmers in the program produced nearly 25 percent of Malaysia's 4.5 million metric tons of crude palm oil in 1986.

Mr. Ramli, one of 1,500 farmers on the Trolak oil-palm cooperative about 70 miles (117 kilometers) north of the capital, Kuala Lumpur, estimated that his monthly income, after repaying an installment of a government loan for his house and land, was 700 Malaysian ringgit (currently $277).

Reuters

An oil-palm plantation worker holding ripened fruits.

Of this amount, about 450 ringgit is from his 10 acres (4 hectares) of oil palm and 250 ringgit from a motor vehicle driving school that he runs.

His monthly income is above the average of 500 ringgit for families at Trolak. But with a wife and eight children aged between two months and 17 years, he said that he needed the extra money.

The official poverty line in Malaysia is fixed at 300 ringgit a month for a family of six.

At the congressional hearings in Washington, the sponsor of the bill, Representative Dan Glickman, a Democrat, acknowledged that the proposed U.S. legislation might cut into tropical oil imports and boost sales of soybeans grown in Kansas, his home state.

The American Soybean Association, representing U.S. soybean farmers, has been leading the campaign to have tropical oils labeled.

In advertising posters and pamphlets, the association has stated that the three tropical oils contain more saturated fatty acids than lard, a type of animal fat.

In a press statement in April that supported this contention, the American Heart Association said that intake of saturated fat had been linked to high blood cholesterol levels and coronary heart disease in many scientific studies.

However, Mr. Lim accused the soybean association of mounting a "smear campaign" to frighten U.S. consumers away from palm oil.

"This is a case of protectionism in the guise of a health issue," he said.

Mr. Lim, a medical practitioner, said that research at the Palm Oil Research Institute of Malaysia had shown that palm oil, though saturated, had anti-thrombosis qualities that lowered blood cholesterol levels.

Mr. Lim said that Malaysia was not against labeling but believed it should apply to all edible oils, including soybean oil, on the basis of scientific research by the U.S. Food and Drug Administration.

Richard J. Ronk, acting director of the FDA's Center for Food Safety and Applied Nutrition, said at the congressional hearing that more research, particularly in humans, was needed to clarify further the relative effects on blood cholesterol of some of the major fats and oils in the American diet, such as olive oil and palm oil.

Mr. Lim said that although palm oil accounted for only about 4 percent of edible oil consumption in the United States, its share had been growing at the expense of more expensive soybean oil both in the United States and in the international market. Palm oil and soybean oil have similar uses in cooking and blending.

This week, the United States and Malaysia are expected to take the battle to promote their rival oil industries to a five-day World Congress of Food Science and Technology starting Monday in Singapore.

The American Soybean Association and Malaysia's Palm Oil Research Institute will present scientific papers, distribute literature and hold demonstrations before around 800 food scientists from 40 countries.

Malaysia is also due to lead an international delegation to the United States this week to counter the arguments of the soybean association.

Meanwhile, agricultural specialists in Kuala Lumpur said that if palm-oil export markets started to shrink permanently and prices fell to unprofitable levels, Malaysian commercial estates and small farm cooperatives would be forced to reduce oil palm acreage and diversify into other cash crops.

They said that part of the area now growing oil palm in Malaysia was once planted with rubber trees.

Low world prices for rubber for much of the last decade was one of the main reasons for large-scale conversion of rubber plantations to oil palm.

How Wan Hong, associate director of marketing for the Guthrie group of companies, one of the largest oil-palm growers in Malaysia, said the average cost of production for a commercial plantation was about 565 ringgit a ton.

Mr. Lim said the palm-oil industry in Malaysia was engaged in research to find other uses for its products.

Montedison Heavily Oversubscribed

By Carl Gewirtz
International Herald Tribune

PARIS — Montedison SpA's request for an $800 million loan to help finance the acquisition of Himont Inc. of the United States was more than four times oversubscribed last week. Commitments from 44 of the 64 banks invited to participate totaled $3.6 billion.

The success provoked fierce criticism within the banking community that Citicorp, which organized

INTERNATIONAL CREDIT

the loan, had set unnecessarily generous terms on the one-year facility. Interest is set at ⅜ point over the London interbank offered rate. The charge on any undrawn amount will be ⅛ percent.

What angered the critics was the fact that Citicorp was seen reoffering paper in the secondary market at a price of 3/16 point over Libor. Bankers assumed that Citicorp was unloading its own stake in the loan and offering others only half the amount of interest paid by the borrower.

But officials at Citicorp dispute this view. They explain that Nedermont, the actual borrower, a subsidiary that is guaranteed by Montedison, needed to draw the entire amount immediately, before completion of the loan documents and thus before the syndicated credit could be utilized.

Citicorp therefore extended the entire $800 million for one month, at which time the syndicated credit can be drawn. Citicorp then put up for sale in the secondary market participations in this one-month credit.

Finance officials at chemicals group Montedison reject criticism that they paid too much to banks in the syndicated credit. They report that there was a bandwagon effect when banks realized the transaction was a success and that the amount allocated to participants would be greatly scaled back from the underwriting commitments.

"Quite frankly, it was a kind of inflation — this rush in the last two days by banks offering to join the credit," a Montedison official said.

As a result of the oversubscription, banks will be allotted only 20 percent of their underwriting commitment. This means a bank that agreed to provide $100 million will only be asked to extend $20 million.

Bankers who defend the pricing note that acquisition finance always costs more than normal loans. This is aimed at assuring a speedy completion when the cash is needed immediately and as compensation for the short duration. Such loans are usually short-lived as some of the acquired assets are often sold to pay down the loan.

Montedison officials state that "the full amount of the loan will not be outstanding in 12 months time."

The additional debt also weakens the credit standing of the borrower. Montedison has acknowledged that its high debt-to-equity ratio needs to be reduced and late last week began an exercise to increase its outstanding stock through a rights issue.

In fact some bankers, critical of the transaction, asserted that the apparently generous pricing on the new loan was aimed at distracting lenders from a thorough credit analysis of Montedison.

The response was also positive to a request by Saint-Gobain, a French building materials and glassmaker, for a $600 million facility. Bankers expect that final commitments will exceed $1 billion. The facility, to run for five years but extendable to seven at the option of lenders, carries an annual fee of five basis points.

Drawings in domestic French francs will cost 10 basis points over the Paris interbank rate, while drawings in other currencies will be set at Libor flat. However, both these charges are augmented by utilization fees of 2 basis points for up to one-third of the full amount, four basis points for up to two-thirds and six basis points for more than two-thirds. Fees range up to six basis points.

Elsewhere in the market, Data General Corp., a U.S. computer manufacturer, is seeking a $200 million revolving credit for three years. It will pay a commitment fee of 3/16 point on any amount not used and ⅜ point over Libor to draw the loan. If more than half the amount is drawn, the company will pay a utilization fee of an additional ⅛ point.

Nykredit, Denmark's second-largest mortgage institution, is seeking a $50 million, five-year loan. It will pay a commitment fee of five basis points on any amount not drawn and 12½ basis points, or ⅛ percentage point, over Libor on usage. Front-end fees range up to five basis points.

PEARSON: *Murdoch Seen as Latest Corporate Raider*

(Continued from first finance page)

resale values of some of Pearson's prestigious brands.

A year's wait would give him plenty of time to fan interest in some of Pearson's prime properties. In addition, bankers say, Mr. Murdoch may be hoping the stock market will decline, reducing the cost of a bid.

Warburg Securities in London estimated the breakup value of Pearson at only 10 percent above its current market price. Yet Michael Murphy, an analyst at Warburg, said there was an "enormous element of subjectivity" inherent in such estimates because an eager bidder could attach a high "scarcity value" to some of Pearson's well-known brands, driving the price far higher.

Because of its sizable newspaper interests in Britain, attention has already focused on the possibility that Mr. Murdoch is after the Financial Times, Britain's leading business daily with a circulation of more than 300,000.

He already controls one third of the daily and Sunday circulation of national newspapers in Britain, including The Times, The Sunday Times and the Sun, so a further newspaper acquisition would have to be referred to the Monopolies and Mergers Commission, the government agency that monitors the effect of mergers on industrial competition. A way to sidestep a monopoly challenge could be to sell off the struggling Times to be able to acquire the Financial Times, which is highly profitable.

In terms of advertising, the Financial Times and Sunday Times, by one estimate, represent roughly half of the display advertising among British national papers. Typically, the government is reluctant to allow mergers that result in a single company controlling more than 20 percent to 25 percent of a domestic market.

Mr. Murdoch plans to meet with Pearson's top management this week. It would be hard to imagine a more vivid clash of executive styles and backgrounds than that between the relentless Mr. Murdoch, an Australian-born entrepreneur, and Pearson's chairman, Lord Blakenham, a scion of the Pearson clan, and an avid birdwatcher.

However, Lord Blakenham, 49, is credited with turning Pearson from a family-run company into a professionally managed one since he became chairman four years ago.

"Pearson may still have a family member as chairman, but Blakenham has sharpened up the business considerably," said Nigel Utley, an analyst for Alexanders Laing & Cruickshank.

Since 1982, pretax profits have doubled, rising to £121.1 million (currently nearly $200 million) last year on revenues of £952.6 million, while growth in earnings per share has proceeded at a compound annual rate of 22 percent over five years.

The two most notable improvements have been in the Financial Times and Penguin publishing.

Last year, the Financial Times group's pretax profits jumped to $45 million from $23 million in 1985 because of cost-cutting linked to the introduction of new technology and strong advertising from London's booming financial district.

More important than the investment funds is the Pearson attitude, according to Frank Barlow, chief executive of the Financial Times.

"The real value of being part of the Pearson group is that they understand newspapers," Mr. Barlow said. "They know that you have to be independent to maintain your integrity, and Pearson does not tamper with the editorial independence of the Financial Times."

Mr. Murdoch has sometimes been accused by journalists who previously worked for him of molding news coverage to suit his political views.

The most striking turnaround has been at Penguin. In 1978, Lord Blakenham brought in an American, Peter Mayer, to run the group. At that time, Penguin was losing money badly.

Mr. Mayer kept publishing literary authors, but also decided to bring out books with more popular appeal, such as The Jane Fonda Workout Book and Shirley Conran's novel Lace.

Today, Penguin is profitable and growing fast, helped by the $65 million acquisition last year of New American Library.

"Pearson was the right parent to have during a difficult period of change for us," said Mr. Mayer, who is based in New York. "It was able to take a long view, not a one- or two-year perspective."

EUROBONDS: *Banks Take Long View, Help Clients Through Bad Times*

(Continued from first finance page)

warrants to buy gold at a price of $463 an ounce, the price then prevailing in the spot market. But that attracted little demand outside of Switzerland and the paper traded at a discount from the offering price of 2¼ points.

Bankers said they were trying to convince investors to sell high coupon Australian-dollar bonds, pocketing the gains from the currency's appreciation against the U.S. dollar and the steady decline in Australian interest rates, and swap into Canadian dollar bonds.

The current coupon level on Canadian dollar bonds is about one percentage point below the level now prevailing in the Australian dollar sector. Some bankers believe that is a small price to pay for switching into Canadian paper, which is seen as having greater potential for capital gains than the Australian dollar, as the Canadian dollar appreciates against the U.S. dollar and Canadian interest rates decline.

But the four new Canadian dollar bonds were too much for the market to bear. Without some compelling reason, such as swapping into shorter maturity, higher quality, higher yielding paper, investors are unwilling to look at new fixed-rate investments in any currency.

A 500 million French franc offering from Solvay, the Belgian chemical company, drew little interest outside of France and the Benelux countries, despite the fact that real, or inflation-adjusted, interest rates in France are now the highest available. Some analysts say the high real rates compensate for the possibility of a further devaluation of the franc against the Deutsche mark. But other analysts, who believe French policy is now aimed at maintaining the currency's value against the mark, dismiss fears about a devaluation and say current interest rates make franc investments attractive.

Using 10-year government bond rates and the level of consumer price increases reported in August, Salomon Brothers estimates that real interest rates in French francs are at 6¼ percentage points, versus 6.1 points in marks and Canadian dollars and 5¼ points in U.S. dollars and yen.

Interest rates in both West Germany and Japan firmed last week, roiling those bond markets as well as the dollar market. Although government officials said it was incorrect to read the firming as a signal to further tightening of monetary policy, analysts were unwilling to dismiss the moves, especially as they came on the eve of the annual meeting of the International Monetary Fund.

"The higher rates are an opening gambit by Germany and Japan, a statement that the next round of widespread dollar weakness must be dealt with by a rise in the U.S. discount rate rather than by a relaxation of monetary policy elsewhere," said analysts at Credit Suisse First Boston.

While straight bonds were shunned, investors continued to register a preference for equity-linked paper. Even though British stock prices plummeted last week on news of a surprisingly bad trade deficit, the issues from engineering and construction company Costain Group PLC and food and drink company Argyll Group PLC were well received.

In both cases, the new stock to be issued represented not more than a 2½ percent increase in the outstanding volume and thus did not require the companies to seek shareholder approval or offer existing stockholders pre-emptive rights.

Japanese issuers remained the most active but drew little support.

Notable among these was Minolta Camera's sale of 200 million DM bonds carrying no interest rate at all. Investors do have a put option, to redeem the bonds after five years at a premium price giving a yield of 1.53 percent. In exchange, a low 5 percent premium was set on converting the bonds into common stock. But investors, focusing on the absence of any coupon rate on the bond, shunned the paper, which traded at a 3¼-point discount.

Fed Panel Backed Tighter Money

United Press International

WASHINGTON — The Federal Reserve System committee that controls growth in the nation's money supply voted in August for a slightly tighter policy than it approved in July, the Fed has revealed.

The Federal Open Market Committee's minutes for its Aug. 18 meeting, released Friday, concluded that "somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable" behavior for the Fed operations desk in New York.

The wording indicates more of a tendency toward restraint than was shown at the July 7 meeting, when the FOMC said that greater or lesser restraint both would be acceptable depending on circumstances.

Bonds Show Strength, but Caution Reigns

New York Times Service

NEW YORK — The mood in the credit markets has turned to one of caution as investors remain on the sidelines awaiting the results of the meeting this weekend of the Group of Seven finance ministers.

Concern also lingers about the possibility of higher interest rates both abroad and in the United States.

U.S. Consumer Rates

Sept. 25	
Tax Exempt Bonds	
Bond Buyer 20-bond index	8.39 %
Money Market Funds	
Donoghue's 7-Day Average	6.45 %
Bank Money Market Accounts	
Bank Rate Monitor Index	5.69 %
Home Mortgages, FHLB average	10.29 %

Source: New York Times.

U.S. CREDIT MARKETS

Bonds closed slightly higher Friday on expectations that the major industrialized nations would reaffirm their support for the dollar at the talks.

That was in sharp contrast to Thursday, when prices plummeted on reports in the Japanese press that the Bank of Japan had decided to tighten monetary policy and to encourage higher short-term interest rates.

Toyoo Gyohten, a Japanese deputy minister for finance, told reporters in Washington on Friday that Japan was resisting any tightening of monetary conditions.

He said the Bank of Japan was trying to maintain an easing but noted that there was underlying pressure in the market for higher interest rates, including strong economic activity, increased demand for funds and faster money supply growth.

By late Friday, the bellwether long bond, the 8¾ percent issue maturing in 2017, was at 92 10/32, up by 7/32, to yield 9.66 percent.

Also underlying market sentiment is the displeasure by bond traders over lack of a debt ceiling measure by Washington that would allow the Treasury to resume its backlog of auctions.

"The Treasury markets are in the process of making an important near-term trading bottom," said John Candela, managing director of fixed-income securities at Ladenburg, Thalmann & Co. "The sooner we break some key technical areas the better."

In other credit market activity, the three-month bill rose 10 basis points, to 6.54 percent, late in the day; the six-month bill was up 4 basis points, to 6.89, and the one-year bill was unchanged at 7.21 percent.

In the intermediate market, 10-year notes due in 1997 ended at 94 12-32, to yield 9.51 percent.

Kuala Lumpur Delays New Brokerage Fees

Reuters

KUALA LUMPUR, Malaysia — The Kuala Lumpur Stock Exchange has said it will postpone the adoption of new brokerage commissions because members could not agree on the phrasing of a resolution. The new fee structure originally was to go into force on Oct. 1.

The new lower rates are aimed at attracting institutional investors into the two markets.

NASDAQ National Market

OTC Consolidated trading for week ended Friday. Sept. 25

	Div.	Yld.	Sales in 100s	High	Low	Close	Net Ch'ge
A							
A&W Bd			521	13½	12	13	— ½
ACC Cp			128	2⅞	2⅛	2⅜	
ADC			1385	29¾	28¾	28¾	— ¼
AEC	.32	2.5	163	12¾	12⅛	12¾	+ ¾
AEL			348	14	13½	14	
AEP			301	11	10½	10½	
AIFS			18	8½	8	8	
AIM Tel			258	10¼	9¾	10	— ¼
ALC Cm			1291	3⅝	3¼	3⅜	— ½
AME			373	11¾	10⅝	10⅞	— ⅜
ASK			4426	14½	13⅞	14¼	+ ⅜
AST			10914	20⅛	15	15¼	—4⅝
ATI			811	12½	12¼	12½	
AW A			353	2⅞	2⅝	2⅝	+ ⅛
AarnBr			52	13½	12¾	12¾	
AarnRt	.10	.8	122	12¼	12	12¼	— ⅛
AbingS			667	15½	13⅞	14¼	— ¾
AbeLinc			134	12	11½	12	— ½
Abrams	.24	3.2	16	7½	7⅜	7½	
AcaJoe			6734	1⅛	⅞	⅞	
Acadin			4595	2⅞	2⅝	2⅝	— ⅛
Accel			1061	8⅞	8⅜	8⅞	+ ½
Aceptin			61	13	12½	12½	— ¼
Aceto	.14r	1.0	225	14½	14	14½	+ ¼
ACMT s			199	19	17	17	—1½
[illegible]			159	16¾	16¼	16¼	— ½
ActARt			85	17⅛	16	16½	— ½
ActAuSt			714	7¼	6½	7¼	+ ¾
Actvsn			3349	2⅞	2⅝	2⅞	
Actmd s			3590	23½	22½	22¾	— ¾
Acusn			4672	20¾	19½	19¾	+ ¼

(Continued on next page)

Mutual Funds

Figures as of close of trading Friday. Sept. 25

NEW YORK (AP)— The following quotations, supplied by the National Association of Securities Dealers, Inc. are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

Chicago Exchange Options

Figures as of close of trading Friday. Sept. 25

EMS: *Other Members Expected to Challenge West German Dominance of Policy Through Control of Exchange-Rate Mechanism*

(Continued from Page 1)

style anti-inflationary policies of which the Bundesbank approves.

For the past few years, with inflation widely regarded as the major threat, they have been content to do so. Increasingly, however, France and some of the other members are becoming more concerned with fighting slow growth and unemployment and less with the continuing overriding West German priority of combating inflation.

If these countries follow their own priorities and assert their independence, the risk is that they will lose the credibility that their policies have gained from their close association with West Germany. That would put downward pressure on their exchange rates.

At the same time, low West German growth and inflation rates, and the downward drift of the dollar, are enhancing the mark's hard-currency status.

What France is effectively saying to West Germany, in the words of a senior EC official, is this: "We have got to move on from the previous position, in which you made policy and we adapted to it. We deserve credit for having been good boys for the last three years. This means some relaxation on your part, but monetary stability is still obtainable at a higher level of growth."

In practical terms, France has been asking for early, unconditional help from the Bundesbank to support weaker currencies when they come under speculative attack (implying less West German insistence on policy changes in the weaker-currency country), plus greater coordination of national economic policies (implying a stronger voice for the non-German members).

This month's changes have gone several steps down that road. West Germany has indeed agreed to make marks available to other countries for currency support at an earlier stage and in greater quantities, and to intensify economic policy coordination in the EC's monetary and central bank governors' committees.

But the Bundesbank is making it clear that there will still be limits to its largesse, and that the currency support will not be automatic, as France wanted.

Jacques de Larosière, the governor of the Bank of France, has been saying that he nevertheless sees in the currency agreement "a presumption of automaticity," a phrase that has legal overtones in French.

As with most compromises, the negotiating partners are each reading their desired outcome into the final wording. West Germany says that the agreement will mean little change in practice. France says it will mean a great deal.

The crucial factor will be how far both Bonn and the Bundesbank are prepared to take their hands off the wheel.

That is why the full implications for EC economic policymaking will not be apparent until the agreement is put to the test, both in the exchange markets and in the more concrete intergovernmental economic coordination that is due to start.

The crucial factor will still be how far both Bonn and the Bundesbank are prepared to take their hands off the wheel.

West Germany's historic inflation phobia has not disappeared overnight. The West German authorities are still afraid that a relaxation of discipline in the system will lead to inflation elsewhere that will be only too easily exportable to West Germany.

For France, however, the agreement represents at least the thin end of the wedge. After a pause for breath, it is not unlikely that Paris will come back for more.

For that reason, the official suggested, the West Germans are reluctant to make too many concessions at any one time.

It is not a constant daily battle by France against West German dominance, the same official said. But the French want British allies in their overall campaign. In the French view, there is now absolutely no reason why Britain should not bring the pound into the system.

Advocates of British EMS membership claim that both the technical and political conditions are right for the long-awaited move, which the British government has promised "when the time is ripe".

The widely shared view in Brussels and London is that only the personal reluctance of Prime Minister Margaret Thatcher is now in the way of sterling's entry.

Nigel Lawson, the British chancellor of the Exchequer, is believed to be a convert, as is Robin Leigh-Pemberton, the governor of the Bank of England.

Among the reasons for Mrs. Thatcher's continuing opposition are fears similar to those already visible among some of the system's existing members, such as concern about the loss of national sovereignty.

In that respect, her desire to maintain her own government's control over the British economy at least partly justifies the classic French complaint that Britain's fundamental commitment to Europe will continue to be in doubt until the country finally makes the pound part of the EMS.

Most member governments appear confident that the latest changes to the system are steps in the right direction. Many economists believe that they could make formal exchange rate changes, or "realignments" within the system, less frequent.

Officials at the European Commission, the EC's executive body, say they have detected a more relaxed attitude by Karl-Otto Pöhl, the Bundesbank governor, towards his partners' concerns. The commission believes that governments and central banks now trust each other enough to make the new arrangements work smoothly.

As Mr. de Larosière puts it, "It is a matter of good faith." But there is as yet no final answer to the key question: Does West Germany really yet trust its partners to run their own economies?

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

	Sales in 100s	High	Low	Close	Net Ch'ge
(Continued)					
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

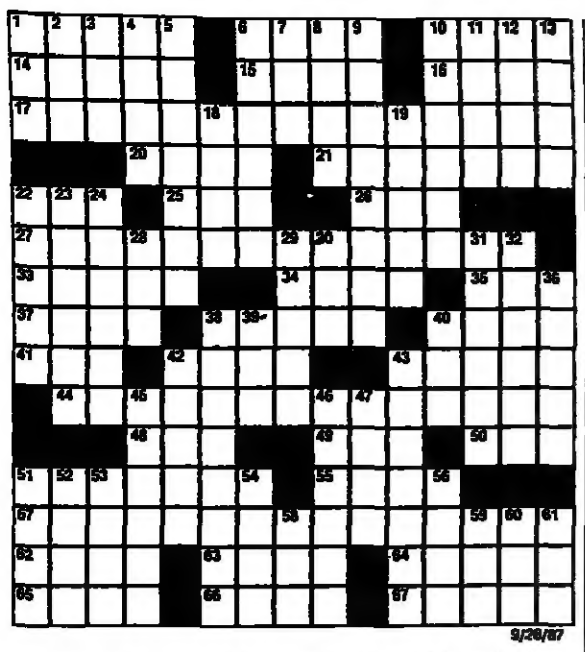
	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					



ACROSS

1 Accumulate
6 Cold or ready follower
10 Like many a Texas ranch
14 Overalls material
15 On the China
16 French magazine
17 Lapsus linguae
20 Sting a customer
21 Scary cinema sounds
22 "Raiders of the Lost ——"
25 Cycle beginning
26 Hurry along
27 Speak thoughtfully
33 Westminster follower
34 Dizzy or Daffy
35 High mountain
37 Type of act
38 Jupiter or Zeus
40 Code predecessor
41 Mr. and Ames
42 Play it close to the——
43 Sacrificial site
44 Rap
48 Cry of disgust
49 Hoover, for one
50 Color changer
51 Aftermath of a mistake
55 Press
57 Speak without result
62 Kitchen follower
63 Actor Robert De——
64 Uncanny
65 Peruse
66 Star of 67 Across
67 "I —— of Jeannie" (TV oldie)

DOWN

1 TV commercials
2 Brooks or Tillis
3 Black cuckoo
4 Drinks slowly
5 Slick talker
6 Ament
7 Bat wood
8 Comprehends
9 Deck opening
10 Wood overlay
11 Seaweed
12 Urban blight
13 Eighteen at Augusta
18 Gambling game
19 Artemis' victim
22 Cognizant
23 Some bridge calls
24 Put the —— on (squelch)
28 Obtain
29 Archie's "dingbat"
30 Tennis unit
31 Moved swiftly
32 Cheap; shoddy
36 City associated with a farm exodus?
38 Remove from power
39 Dec., in N.Y.C.
40 Brewed beverage
42 Fashion
43 Like some military vehicles
45 Dispossessed
46 Menlo Park name
47 Fishhook part
51 Pitcher
52 Give a 10, e.g.
53 Film dog
54 Site of Vance A.F.B.
56 —— -do-well
58 Bard's preposition
59 "Chances ——," Mathis hit
60 Avila aunt
61 Margin

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DENNIS THE MENACE

"I'M SURE GLAD YOU'RE NOT A-WORKIN' MOTHER!"

JUMBLE. THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

TENKO

PAMCH

TONBEN

YOANNE

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here:

(Answers tomorrow)

Thursday's | Jumbles: DOILY PRIME TINGLE HANGER
Answer: The thing about a home that gets the most interest—THE MORTGAGE.

WEATHER

EUROPE	HIGH C	HIGH F	LOW C	LOW F	
Algarve	25	77	17	63	cl
Amsterdam	12	54	8	46	sh
Athens	29	84	20	68	fr
Barcelona	28	82	15	59	fr
Belgrade	30	86	20	68	fr
Berlin	13	55	8	46	cl
Brussels	13	55	9	48	cl
Budapest	18	64	15	59	r
Copenhagen	9	48	7	45	cl
Costa Del Sol	27	81	19	66	cl
Dublin	12	54	5	41	cl
Edinburgh	10	50	1	34	o
Florence	30	86	22	72	o
Frankfurt	13	55	8	46	o
Geneva	15	59	11	52	r
Helsinki	13	55	6	43	cl
Las Palmas	30	86	23	73	cl
Lisbon	23	73	19	66	cl
London	14	57	6	43	cl
Madrid	24	75	10	50	cl
Milan	26	79	17	63	cl
Moscow	12	54	7	45	cl
Munich	11	52	9	48	r
Nice	28	82	19	66	cl
Oslo	10	50	5	41	cl
Paris	17	63	10	50	cl
Prague	11	52	8	46	o
Reykjavik	12	54	9	48	r
Rome	28	82	24	75	cl
Stockholm	10	50	4	39	o
Strasbourg	15	59	9	48	cl
Venice	28	82	18	64	cl
Vienna	13	55	10	50	r
Warsaw	14	57	7	45	o
Zurich	13	55	9	48	r

MIDDLE EAST	HIGH C	HIGH F	LOW C	LOW F	
Ankara	28	82	5	41	fr
Beirut	—	—	—	—	na
Cairo	32	90	16	64	fr
Damascus	—	—	—	—	na
Istanbul	27	81	19	66	fr
Jerusalem	26	79	16	61	fr
Tel Aviv	30	86	19	66	fr

OCEANIA	HIGH C	HIGH F	LOW C	LOW F	
Auckland	17	63	11	63	cl
Sydney	—	—	—	—	na

ASIA	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	34	93	24	75	st
Beijing	25	77	9	48	fr
Hong Kong	26	79	22	72	o
Manila	34	93	26	79	cl
New Delhi	38	100	24	75	fr
Seoul	21	70	7	45	fr
Shanghai	25	77	11	52	fr
Singapore	28	82	23	73	o
Taipei	26	79	20	68	r
Tokyo	22	72	18	64	o

AFRICA	HIGH C	HIGH F	LOW C	LOW F	
Algiers	32	90	25	77	o
Cape Town	17	63	10	50	fr
Casablanca	23	73	20	68	cl
Harare	26	79	18	64	cl
Lagos	29	84	24	75	o
Nairobi	27	81	12	54	cl
Tunis	40	104	25	77	fr

LATIN AMERICA	HIGH C	HIGH F	LOW C	LOW F	
Buenos Aires	23	73	8	46	st
Caracas	—	—	—	—	na
Lima	21	70	13	55	cl
Mexico City	26	79	12	54	pc
Rio de Janeiro	27	81	18	64	fr

NORTH AMERICA	HIGH C	HIGH F	LOW C	LOW F	
Anchorage	10	50	4	39	cl
Atlanta	28	82	14	57	fr
Boston	20	68	10	50	fr
Chicago	25	77	15	59	fr
Denver	20	68	9	48	sh
Detroit	25	77	11	52	pc
Honolulu	32	90	24	75	pc
Houston	31	88	20	68	pc
Los Angeles	28	82	18	64	fr
Miami	31	88	24	75	pc
Minneapolis	26	79	15	59	pc
Montreal	15	59	5	41	fr
Nassau	30	86	24	75	pc
New York	23	73	9	48	fr
San Francisco	24	75	13	55	fr
Seattle	19	66	10	50	cl
Toronto	19	66	11	52	fr
Washington	25	77	14	57	fr

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Slight. FRANKFURT: Cloudy. Temp. 16—6 (61—43). LONDON: Fair. Temp. 17—7 (63—45). MADRID: Cloudy. Temp. 25—14 (77—57). NEW YORK: Fair. Temp. 25—15 (77—59). PARIS: Cloudy. Temp. 18—9 (64—48). ROME: Cloudy. Temp. 25—20 (77—68). TEL AVIV: NA. ZURICH: Fair. Temp. 16—7 (61—45). BANGKOK: Thunderstorms. Temp. 32—25 (90—77). HONG KONG: Cloudy. Temp. 26—23 (79—73). MANILA: Thunderstorms. Temp. 34—25 (93—77). SEOUL: Fair. Temp. 20—6 (68—43). SINGAPORE: Thunderstorms. Temp. 29—23 (84—73). TOKYO: Showers. Temp. 24—19 (75—66).

SPORTS

SPORTS BRIEFS

Mansell Easy Winner of Spanish Grand Prix

JEREZ DE LA FRONTERA, Spain (UPI) — Briton Nigel Mansell won the Spanish Grand Prix here Sunday in 1 hour, 49 minutes and 12.692 seconds, keeping alive his world driver championship hopes.

Mansell, in a Williams, took the lead at the end of the first lap and was never challenged. Frenchman Alain Prost finished second in 1:49:34.917; his McLaren teammate, Stefan Johansson of Sweden, was third in 1:49:43.510.

Brazilian Nelson Piquet finished fourth to stay at the top of the championship standings with 70 points, but missed his chance to clinch the title in the last European race of the season. Mansell is now second, 18 points behind with races remaining in Mexico, Japan and Australia.

Galici Keeps WBC Junior Welterweight Title

CAGLIARI, Sardinia (AP) — Efisio Galici of Italy successfully defended his world WBC junior welterweight title with a 12-round decision over American Jerry Ricky Stoner here Friday night.

Stoner bounced back from a 10th-round knockdown, but the judges were unanimous in awarding Galici the victory by scores of 118-110, 117-109 and 118-111.

Theatrical Takes Belmont Park Turf Classic

ELMONT, New York (UPI) — Theatrical, the even-money favorite, took command turning for home and drew away to win the $600,000 Turf Classic by 3¾ lengths over River Memories Saturday at Belmont Park.

Ridden by Pat Day and trained by Billy Mott, the 5-year-old son of Nureyev was timed in 2:29-1/5 for the mile and a half (2,420 meters) over the soft Widener turf course. The victory was Theatrical's fifth in seven starts this year, and his $350,000 prize brought his career earnings to $1,692,627.

Solution to Thursday's Puzzle

JINN DOBBY PAN
ARIEL OLLAE EKE
POLTERGEIST RIA
NEO YEAST GIMP
PPD SEGO
ELF HESS DYBBUK
MALFORMED PLEIN
ORION EAR SIGNE
TERRA ELIMINATE
ESTATE SPIEE TAD
GEMS DSC
WINE MOTTO RAE
AME LEPRECHAUNS
SPA ETHER ATRIA
HST ESSEN MEADE

Quotable

● Kyle Rappold, University of Colorado middle guard: "Football's great. You get to kick, bite, spit, fight, win, and afterward you hug a blonde." (LAT)

● Willie Pep, the former featherweight boxing champion who is 65, has been married five times and is talking about getting married again: "When I told the doctor I was marrying a 33-year-old woman, he said I could be taking a chance. I told him, 'Hey, if she dies, she dies.'" (LAT)

● Rocky Klever, New York Jet tight end: "A strike is like kissing your mother-in-law. Nobody wants to do it, but when those lips are on the way, there's nothing you can do about it." (AP)

Talks Stalled; Union Considers Own Games

The Associated Press

NEW YORK — Stalled negotiations threatened a second week of National Football League play Saturday as the union revealed that it might stage games during the strike.

Owners continued their plans to stage strike games with nonunion players beginning on Oct. 4, while the union confirmed that a television network has offered to carry games between players on strike.

The developments came amid charges that management was using the issue of free agency to cover up a union-breaking scheme. Three days of negotiations ended Friday in Philadelphia with no further talks scheduled as the strike entered its fifth day Saturday.

John Jones, a spokesman for the owners' management council, said it didn't appear the two sides could meet again before Thursday. He indicated the next move was up to the union, while the union's executive director, Gene Upshaw, said he was waiting for a call from Jack Donlan, head of the council.

"The issue of free agency clearly is where we're stuck," Jones said. The union has asked for free agency without compensation for players with four years' NFL experience. Management has made small concessions in the amount of compensation that would be awarded to a team losing a free-agent player.

Upshaw said management was purposely stalling negotiations in an attempt to "divide and conquer" the union. "Their strategy is to test the players, to see if the players are willing to take a stand."

In Atlanta, the Sunday editions of the Journal and Constitution reported that Fox Broadcasting Co., the fledgling fourth national network, had talked to the union about staging games among teams made up of striking players. Upshaw said the union would give the idea "serious consideration."

Asked if the union games would be legal, Jones said: "Specifically, no. When a player signs a contract with the league, the provisions of the contract prohibit that action. I'm not saying it's a nonissue, but we haven't spent a lot of time worrying about it. But just so that everyone is clear on this, legally the games can't be played."

Jones said that during last week's negotiations, not only did the union remain uncompromising on its free-agency demands, but "they hit us with in excess of $200 million in increases as well as their demand to tear down the system."

Mick Luckhurst of the Atlanta Falcons, a union vice president, said management was using free agency to try to stall talks. *Luckhurst said he offered management a plan* on Thursday that would have granted free agency only to players with 12 years' experience.

"That would only cover about 30 players, and I figure less than a third of them would leave a city where they've been for 12 years," Luckhurst said. "So we're talking about less than 10 players. Even then, they said, 'No, no, no, no, no.' They've told the public that the problem is free agency, but this is not just free agency. There are eight issues, and they've refused to negotiate on all of them."

The union also has included improvements in pensions and minimum salary among its demands. "It's not got anything to do with free agency. It's busting the union," Luckhurst said.

Meanwhile, some strikers appeared to be losing enthusiasm. Picket lines disappeared in Denver on Friday, and on Saturday there were none at training sites for the Buffalo Bills, Philadelphia Eagles, New England Patriots and Indianapolis Colts.

NFL Fans Faced With a Blue Sunday

By William E. Schmidt
New York Times Service

CHICAGO — All week Donald Linder, a Chicago real estate agent, was dreading Sunday, a day without real football, without his Chicago Bears.

"I've got this routine," said Linder, recalling what he'd done only a week earlier, the day before the National Football League players went out on strike. "I would get up, go running and then get a bunch of the guys over to watch the game."

Now, with the Bears undefeated after two games and Sunday's contest against the Lions in Detroit canceled, *Linder's day loomed like an arid wilderness.* "I guess I'll go to church instead," he said.

For fans and players, restaurateurs and bartenders, bookies and stadium vendors — all those whose diurnal rhythms are so vitally connected to the sport — Sunday was a day of difficult decisions, hard choices over what to do.

Go for a drive in the country? Clean the garage? Take the family shopping? Spend time with the kids in the park? Watch baseball?

If the past is any measure, one thing seemed certain: People would spend less time in front of their television sets. In 1982, when the players went on strike and cost the NFL almost half its regular season, CBS-TV lost 14 million viewers on an average Sunday, compared to the year before, and NBC was down by 12 million.

The players' strike has gone down especially hard in Chicago, where school teachers have already been on strike for three weeks, leaving some 430,000 students at home.

"School strike, players strike — the whole business has thrown a pall over the city," said Jim Rittenberg, manager of a bar and restaurant called Ditka's, as in Mike Ditka, the coach of the Bears. "You got kids at home with nothing to do, and now football fans too."

Rittenberg figures the strike will cost his business about 500 paying customers per Sunday, fans who otherwise would come in to drink beer, eat chili and watch the Bears.

"You know where people will go instead? The Cubs are at home and the weather's nice, so you can expect a big crowd up at Wrigley. And then there's the racetrack. I wouldn't be surprised if you had an extra 4,000 people out there — including me."

With no Bears on television, what about bigger attendances at the zoo, the art museum or the city's other cultural attractions? "Well," said Rittenberg, "I don't think I'd go that far."

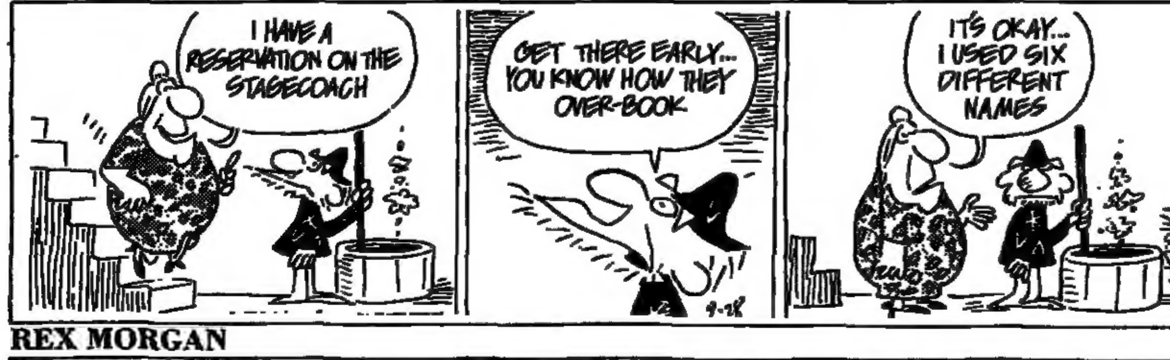
PEANUTS

BLONDIE

BEETLE BAILEY

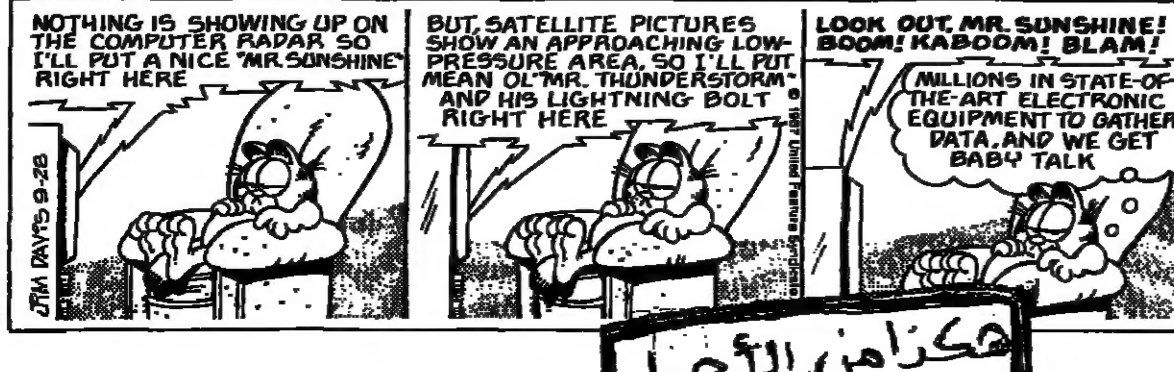
ANDY CAPP

WIZARD of ID



REX MORGAN

GARFIELD



WORLD STOCKS IN REVIEW / Via Agence France-Presse

Amsterdam

Share prices remained under pressure last week in low volume on the Amsterdam Stock Exchange, except for Wednesday when the exchange followed a very strong Wall Street.

The unstable dollar, the rise in interest rates and the up-and-down movements on Wall Street all contributed to an unstable mood.

On Wednesday, the ANP-CBS general index jumped 7 points. The index, which closed at 307.4 the previous Friday, gained a mere 0.9 points last week to close Friday at 308.3.

Kempen & Co. brokerage said the analysts' consensus seems to be to steer clear of the Amsterdam market for the time being. Kempen sees no reason to expect a market revival any time soon.

Frankfurt

The Frankfurt stock market had a dull week, with uncertainty prevailing in a narrow market.

The announcement Wednesday by the Finance Ministry of possible privatization of Volkswagen moved the stock down by 15.50 Deutsche marks for the week to 383 DM at the end. The market also reacted unfavorably to tiremaker Continental Gummi's decision to raise funds on the financial market.

The Commerzbank index dropped 13.9 points for the week to finish at 1,959.2.

Volume on the eight West German stock *markets dropped again, to 11.98 billion DM* against 15.28 billion the previous week.

Hong Kong

The Hong Kong stock market hit five successive all-time highs last week after the government doubled its estimate of economic growth this year.

The Hang Seng Index closed Friday at 3,840.11, compared to the previous week's close of 3,649.96, while the broader-based Hong Kong Index finished the week at 2,543.24, after 2,408.23.

Dealers were divided as to future trends. Some warned of sharp correction this week, while others saw the 4,000-point mark not that far over the horizon.

Average daily turnover was a huge 3.18 billion Hong Kong dollars, compared with the previous week's 2.44 billion.

London

The release last Thursday of British trade figures for August, showing the widest ever trade deficit, wiped out more than £6 billion from share values.

But a rally occurred on Friday on a feeling that the selling had been overdone, according to some analysts. The Financial Times industrial share index ended only 1.6 point down on the week, at 1,831.6.

Equities had been helped early in the week by an encouraging survey from the Confederation of British Industry and persistent hopes of tax cuts next year, although the tone was nervous ahead of the trade statistics and tension in the Gulf.

The trade figures particularly hit consumer stocks as they momentarily reawakened fears of an inflationary build-up, and consumer higher interest rates. Storehouse also weakened when property group Mountleigh announced it was dropping its takeover plans.

Milan

Milan stocks progressed strongly last week, recovering some of the ground that has been lost by weeks of political uncertainty and disappointing economic news.

The Comit. Index closed Friday at 635.71, a 3.4-percent gain on the previous week. Trading volume contracted slightly: A total of 177 million shares were traded, compared with about 200 million the previous week, but for the slightly higher value of 914 billion lire, after 880 billion.

Sentiment was divided. Some investors sold, expecting a further downturn, analysts said, but others, especially small provincial and foreign investors, were in a buying mood because of good quarterly results from leading companies.

Fiat shares did particularly well, on the strength of the launching of the new Alfa Romeo 164 and a favorable report from U.S. commercial banks. Fiat ordinary rose 6.65 percent, while IFI preferential gained 8.59 percent, and IFIL rose 10.99 percent.

Paris

Upward pressures on interest rates in France and elsewhere hit the Paris Bourse last week, as the CAC index dropped to 419.0 on Friday from 429.2 the previous Friday.

On the French bond market, the average yield reached almost 11 percent because of a drop in long-term bond prices. Renewed inflation in the United States has led to fears of higher U.S. interest rates, which would detract from the attractiveness of French stocks.

The bourse has also been made nervous by French political infighting, with an eye on next year's presidential election, and foreign investors are generally absent.

Singapore

The Singapore stock market fell for five consecutive days last week in nervous selling in a new delivery and settlement system combined to dampen activity.

Prices brightened slightly Tuesday on bargain-hunting and short-covering but they were not sustained as the market began to feel the strain of several new listings.

The Straits Times industrial index closed 11.67 points lower Friday at 1381.67, after plunging 37.12 points on Monday.

Turnover for the week was marginally better than the previous week, with 109.3 million shares valued at 344 million dollars changing hands.

In industrials, Inchcape gained 15 cents to 6.45, SIA gained 20 cents to 14.50 while Far East Pac picked up 15 cents to 6.40 and F. & N. tumbled 40 cents to 12.50.

In finance and banking, DBS finished the week 20 cents higher at 16.40 while Malayan Banking chalked up a hefty 45 cents to 8.05.

Tokyo

Share prices raced ahead on the Tokyo Stock Exchange last week, thanks to a gain of more than 400 points during half-day trading Saturday.

The 225-issue Nikkei Stock Average, ahead a modest 16.57 yen the week before, closed at 25,512.79 yen, for a weekly gain of 637.95.

The composite index of all common stocks listed on the TSE's first section, which lost 7.82 points the week before, gained 69.43 points to 2,114.10.

Investors bought into steel stocks, as many firms reported some recovery through the government's domestic-demand expansion policy, and export-oriented blue chips were in demand as the yen steadied at around 143 yen to the dollar.

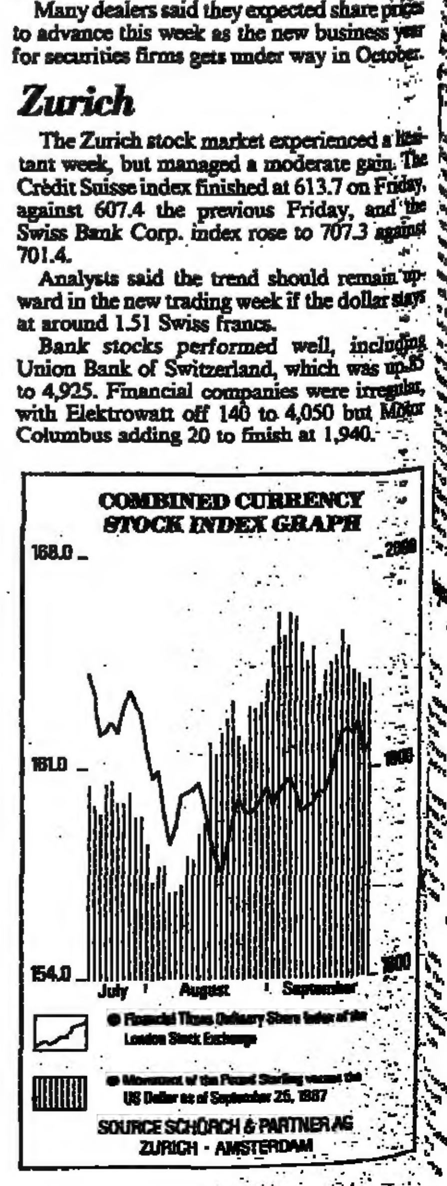
Many dealers said they expected share prices to advance this week as the new business year for securities firms gets under way in October.

Zurich

The Zurich stock market experienced a hesitant week, but managed a moderate gain. The Crédit Suisse index finished at 613.7 on Friday, against 607.4 the previous Friday, and the Swiss Bank Corp. index rose to 707.3 against 701.4.

Analysts said the trend should remain upward in the new trading week if the dollar stays at around 1.51 Swiss francs.

Bank stocks performed well, including Union Bank of Switzerland, which was up 25 to 4,925. Financial companies were irregular, with Elektrowatt off 140 to 4,050 but Motor Columbus adding 20 to finish at 1,940.



SPORTS

Nebraska Escapes on Day Of Ties and Trouncings

Compiled by Our Staff From Dispatches

NEW YORK — Two of U.S. college football's four showdowns Saturday ended with Tennessee tying Auburn and Louisiana State tying Ohio State, and a third tie was looming until quarterback Steve Taylor gave Nebraska a victory over Arizona State with 3½ minutes left.

The fourth game left Arkansas fans fit to be tied, because their team was trounced by Miami.

Nebraska 35, Arizona State 28: In Tempe, Arizona, Taylor, who lost two fumbles that set up touchdowns for ASU (2-1), scored from three

U.S. COLLEGE FOOTBALL

yards out after Nebraska (3-0) sped 82 yards in four plays, with I-back Keith Jones's 62-yard run putting the ball at the eight-yard line.

Taylor's fumble at the Nebraska 15 had led to Darryl Harris's four-yard run and a 21-21 tie in the third quarter. Taylor's second fumble, again at his 15, was turned into a one-yard run by Harris that made it 28-28 with 4:55 left in the game.

Auburn 20, Tennessee 20: In Knoxville, Tennessee, freshman Reggie Cobb scored on a seven-yard run with 1:20 to play and Phil Reich kicked the extra point as Tennessee (3-0-1) tied Auburn (2-0-1).

Tennessee made it 20-13 on Reich's 24-yard field goal with 7:46 left, then stopped Auburn on its three on the kickoff, forced a punt and went 56 yards for the touchdown. Auburn then got from its 20 to Tennessee's 33 but ran out of time.

LSU 13, Ohio State 13: In Baton Rouge, Louisiana, David Browndyke's 40-yard field goal with 6:25 to play allowed Louisiana State (3-0-1) to overcome a fumble and three interceptions in the second half.

Ohio State (2-0-1) turned the first interception into Matt Frantz's 38-yard field goal and the second into Tom Tupa's eight-yard touchdown pass to Jay Koch early in the last quarter, for a 13-10 lead. The Buckeyes had the last chance to win, but LSU defensive end Karl Dunbar tipped Frantz's 47-yard field goal try as time ran out.

Miami 51, Arkansas 7: In Little Rock, Arkansas, the Razorbacks (2-1) suffered their worst loss at home since a 63-7 humiliation by Tulsa in 1919 and coach Ken Hatfield said: "They were on a different level, more like an ozone level."

Sophomore Steve Walsh quarterbacked Miami (3-0) to five touchdowns in 12 minutes, completing 10 of 14 passes for 135 yards en route to a 38-0 halftime lead. Arkansas gained only 38 yards that half.

Oklahoma 65, Tulsa 0: In Tulsa, Oklahoma, backup quarterback Charles Thompson scored on runs of 7, 68 and 10 yards and passed 21 yards to split end Artie Guess during a four-touchdown third quarter. Tulsa got across midfield only once, to Oklahoma's 30, then fumbled.

Florida St. 31, Michigan St. 3: In East Lansing, Michigan, flanker Ronald Lewis dashed 56 yards on a reverse for one TD and made a diving catch of a pass for another.

Notre Dame 44, Purdue 20: In West Layfayette, Indiana, fullback Anthony Johnson rushed for three touchdowns as the Irish rallied from a 17-10 deficit.

Clemson 33, Georgia Tech 12: In Clemson, South Carolina, Joe Henderson ran a kickoff 95 yards for a touchdown and Donnell Woolford scored on a 78-yard punt return.

UCLA 34, Arizona 24: In Pasadena, California, Troy Aikman passed for three touchdowns for UCLA, then scored the game-winner on a quarterback sneak with 6:30 left after Arizona had held a 17-7 halftime lead.

Penn St. 27, Boston College 17: In Foxboro, Massachusetts, Blair Thomas rushed for 164 yards and scored twice for Penn State, which scored on its first three possessions.

Texas A&M 27, So. Mississippi 14: In Jackson, Mississippi, Darren Lewis scored on a 77-yard run in the third quarter and the defense intercepted Southern Mississippi two passes that period.

Alabama 30, Vanderbilt 23: In Nashville, Tennessee, Bobby Humphrey ran a kickoff 56 yards to set up his one-yard scoring plunge for Alabama with 42 seconds left.

Washington 31, Pacific 3: In Seattle, tailback Aaron Jenkins ran for three TDs and 107 yards as Washington rebounded from the previous week's loss to Texas A&M.

Iowa 38, Kansas State 13: In Iowa City, Iowa, Kevin Harmon ran for 108 yards and caught passes for 85 as the Hawkeyes overcame six pass interceptions and a fumble.

Syracuse 35, Virginia Tech 21: In Blacksburg, Virginia, Don McPherson passed for three touchdowns as the Orangemen (4-0) got off to their best start in 27 years.

Georgia 13, South Carolina 6: In Athens, Georgia, Lars Tate ran for 118 yards and a touchdown while the Georgia defense stopped two fourth-quarter threats with a fumble and a pass interception. *(AP, UPI)*

David Vondrak/Reuters-United Press International

UCLA's Ken Norton, standing Arizona ball-carrier Reggie McGill on his head after a short gain. The Bruins won, 34-24.

Europe Beats U.S., Keeps Ryder Cup

Compiled by Our Staff From Dispatches

DUBLIN, Ohio — Seve Ballesteros won the match that blunted a belated rally by the U.S. team Sunday and provided Europe with its first victory on American soil in the Ryder Cup golf competition.

The Spaniard's 2-and-1 decision over Curtis Strange gave the Europeans an unbeatable 14½ points with two matches left on the Muirfield Village course. The final score (with each match worth one point) was Europe 15, United States 13. It was the Europeans' second consecutive victory and their first in the United States in the biennial matches that began in 1927.

The Americans, five points behind going into Sunday's 12 singles matches, needed to win nine points. They nearly did, but their rally ended on the par-4 18th hole of the course designed by Jack Nicklaus, the U.S. captain. In the day's early going, Dan Pohl, Larry Mize and Ben Crenshaw each lost a half point with a bogey or worse on the 18th.

Pohl, in the second match of the day, was tied with Howard Clark of England going to the 18th. But he was short in two, dumped his third into a bunker and made double bogey. He lost the hole, the half-point for a tie and the match, 1-up.

Mize, the Masters champion, was 1-up against Sam Torrance of Scotland going to the 18th. But he drove into trouble, took a penalty drop and eventually made bogey. Torrance's par-4 won the hole and salvaged a half from a match the Europeans appeared to have lost.

Crenshaw, who broke his putter in anger after three-putting No. 6 (thereafter he putted with a 1-iron), won three straight holes on the back nine against Eamonn Darcy of Ireland, and was even going to the 18th. But Crenshaw drove into water, hit his third into a bunker and made bogey. Darcy won the hole and the match with a par.

The U.S., long-dominant in the most important of golf's international team matches, won 6 of Sunday's 12 singles matches and halved three. But team victory had been an unrealistic goal — Europe having led by 6-2 after Friday's opening play, and holding a 10½-5½ edge going into Sunday.

Ballesteros, playing in the 10th match of the day, holed a bunker shot for a birdie on the first hole and never trailed against Strange. A two-time winner of the Masters and British Open championships, Ballesteros held a 2-up lead at the turn and stretched it to 3-up with an 18-foot birdie putt on the 10th.

But he bogeyed the 11th and 13th, then went 2-up again when Strange bogeyed the 14th. They halved the next two holes in par — and that was all Ballesteros needed to win the match and retain the cup.

Tony Jacklin, Europe's captain, called it "the greatest week of my life."

Said Nicklaus, the U.S. captain: "They played the better golf. We had the better chances today, but the Europeans were tougher at the last hole." *(AP, AFP)*

Gregg Sailor-The Associated Press

Seve Ballesteros, left, and Tony Jacklin, the European captain, couldn't have been happier.

Tigers Beat Blue Jays in 13th to Salvage Last Game of Series

The Associated Press

TORONTO — Kirk Gibson's 13th-inning single drove in the winning run Sunday and the Detroit Tigers stayed close in the American League's East Division race by beating the Toronto Blue Jays, 3-2, to avert a sweep of their four-game series.

The Blue Jays' lead over the Tigers dropped to 2½ games. The teams finish their season with three games in Detroit next weekend.

Jim Walewander opened the 13th with a walk off Jose Nunez, the fifth of six Toronto pitchers, was bunted to second by Lou Whitaker and scored when Gibson's soft fly ball bounced off the artificial turf and over the head of center fielder Lloyd Moseby. Walewander, the fastest runner on his team, beat a good throw by Nelson Liriano by sliding stomach first around catcher Ernie Whitt's tag.

Gibson had made it a 1-1 game with a homer in the ninth, then Darrell Evans led off the 11th a homer, only to have the Blue Jays, who had won Friday and Saturday by scoring three runs in the ninth in both games, rally for an unearned run in the bottom of the 11th.

Twins 8, Royals 1: In Minneapolis, Kirby Puckett, Gary Gaetti and Kent Hrbek homered during a five-run first inning and Bert Blyleven pitched a five-hitter against Kansas City as Minnesota clinched at least a tie for the AL West title.

The crowd greeted the Twins with a standing ovation, but Blyleven almost burst the fans' bubble. He walked leadoff batter Willie Wilson and gave up a single to Kevin Seitzer, putting runners on first and third with none out. But George Brett then grounded sharply to Gaetti, who started a third-to-second-to-home double play that got the Twins out of trouble.

Angels 11, Indians 8: In Cleveland, Mark McLemore drove in four runs with two bases-loaded singles for California and Don

SUNDAY BASEBALL

Sutton got his 320th victory in the majors, in his first relief appearance since 1980.

Orioles 9, Yankees 5: In Baltimore, Rene Gonzales broke a 5-5 tie with a double as his team rallied for five runs in the seventh to beat New York and end an eight-game losing streak.

Brewers 9, Red Sox 6: In Milwaukee, Robin Yount's two-run single, for his 100th RBI this season, capped a four-run sixth that beat Boston.

Cubs 7, Cardinals 3: In the National League, in Chicago, Bob Dernier, a last-minute starter, homered leading off the bottom of the first inning, doubled and scored twice against St. Louis.

The loss, coupled with New York's victory over Pittsburgh, reduced the Cardinals' lead to 2½ games in the East Division. They lead third-place Montreal by three games and Tuesday start a four-game series with the Expos at Busch Stadium.

Homers by Dernier, Rafael Palmeiro, Keith Moreland and Andre Dawson gave last-place Chicago a league-leading 203 this season. It also was the first time that four teams hit 200 or more in one year, Baltimore, Detroit and Toronto having reached the mark earlier in the AL.

Mets 12, Pirates 3: In New York, Kevin McReynolds drove in four runs against Pittsburgh to help Bob Ojeda, who had missed three months, win his first start since coming off the disabled list Sept. 1.

A sellout crowd of 48,588 for the season's finale at Shea Stadium gave the Mets a single-season attendance record of 3,027,121 and made them the second team to draw three million, the Los Angeles Dodgers having done so seven times.

Expos 5, Phillies 3: In Philadelphia, Tim Raines hit a bloop double that was lost in the sun, then scored on a wild pitch to break an eighth-inning tie for Montreal.

After Raines led off the eighth with a routine fly to center that Milt Thompson lost in the sun, Mitch Webster beat out a bunt single, advancing Raines to third, and Raines scored when reliever Kent Tekulve's 0-1 pitch sailed past catcher Lance Parrish. Hubie Brooks, who had four runs batted in, then singled to left-center, scoring Webster, who had advanced to third on another wild pitch, making it 5-3.

Giants 15, Braves 6: In Atlanta, San Francisco clinched a tie for the West title and spoiled Phil Niekro's farewell game as Candy Maldonado hit a grand slam homer and drove in six runs.

Niekro, the 48-year-old knuckleballer signed to pitch one final game for the Braves, allowed five runs on six hits with six walks in three-plus innings.

Reds 4, Astros 2: In Cincinnati, Buddy Bell hit a two-run triple during a four-run eighth that beat Houston.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

FRIDAY'S RESULTS

AMERICAN LEAGUE

[illegible]

SATURDAY'S RESULTS

AMERICAN LEAGUE

[illegible]

NATIONAL LEAGUE

[illegible]

Pittsburgh 200 000 000— 2 4 0
New York 320 320 00x—10 13 0
Bielecki, Patterson (2), Jones (5), Gideon (8) and Ortiz, Sasser (7); Fernandez, Cone

Major League Standings

AMERICAN LEAGUE

East Division

	W	L	Pct.	GB
Toronto	96	59	.619	—
Detroit	92	62	.597	3½
Milwaukee	86	69	.555	10
New York	85	69	.552	10½
Boston	74	80	.481	21½
Baltimore	63	91	.409	32½
Cleveland	60	95	.387	36

West Division

	W	L	Pct.	GB
Minnesota	83	72	.535	—
Kansas City	78	77	.503	5
Oakland	77	78	.497	6
Texas	73	81	.474	9½
Seattle	72	82	.465	10½
California	72	83	.465	11
Chicago	71	84	.458	12

NATIONAL LEAGUE

East Division

	W	L	Pct.	GB
St. Louis	91	63	.591	—
New York	88	67	.568	3½
Montreal	87	67	.565	4
Philadelphia	78	77	.503	13½
Pittsburgh	75	80	.484	16½
Chicago	73	81	.474	18

West Division

	W	L	Pct.	GB
San Francisco	84	70	.545	—
Cincinnati	77	77	.500	7
Houston	73	81	.474	11
Los Angeles	68	86	.442	16
Atlanta	67	86	.438	16½
San Diego	64	90	.416	20

Football

Selected College Results

EAST

[illegible]

SOUTH

[illegible]

MIDWEST

[illegible]

SOUTHWEST

[illegible]

FAR WEST

[illegible]

CFL Standings

Eastern Division

[illegible]

Western Division

[illegible]

Saturday's Result

[illegible]

Golf

Ryder Cup

(At Dublin, Ohio)

EUROPE 15, UNITED STATES 13

[illegible]

European Soccer

ENGLISH FIRST DIVISION

[illegible]

FRENCH FIRST DIVISION

[illegible]

ITALIAN FIRST DIVISION

[illegible]

WEST GERMAN FIRST DIVISION

[illegible]

SPANISH FIRST DIVISION

[illegible]

Tennis

MEN'S TOURNAMENTS

[illegible]

WOMEN'S TOURNAMENT

[illegible]

Auto Racing

SPANISH GRAND PRIX

[illegible]

DRIVER STANDINGS

[illegible]

Fast Start, Fine Finish Help Cards

Compiled by Our Staff From Dispatches

CHICAGO — Dan Driessen hit a two-run home run in the first inning Saturday and Ken Dayley struck out Leon Durham with runners on second and third to end the game as the St. Louis Cardinals defeated the Chicago Cubs, 5-3, to take a 3½-game lead over New York in the National League's East Division.

The number of Cardinal victories, or Met losses, needed to

SATURDAY BASEBALL

clinch the division title was reduced to five. St. Louis had seven games left after this series, the last three to be played against the Mets in Busch Stadium.

"Sure, it was a wind-blown homer that got us off and running, but in the end, it was a gutsy performance by a kid," Dayley, "who had to battle his way back from serious surgery," said the Cardinal manager, Whitey Herzog.

Driessen, with Ozzie Smith aboard on a single, had hit Rick Sutcliffe's 3-2 pitch over the wall in left field, his first home run since Sept. 5, 1986.

In the ninth, the Cubs loaded the bases on two walks and an infield single off reliever Todd Worrell, who next gave up a run-scoring grounder to Andre Dawson. Then Dayley came on and got Durham looking at a third strike for his fourth save.

"Dayley's been a blessing," Herzog said. "If we hadn't gotten him back from nerve transplant surgery, we wouldn't be where we are now."

Pirates 8, Mets 2: In New York, Doug Drabek pitched six-hit ball for eight-plus innings and drove in two runs with singles for Pittsburgh after Barry Bonds hit a two-run homer during four-run second against Dwight Gooden. Gooden, who lasted only three innings, entered the game with a 7-0 career record against the Pirates and had guaranteed he would beat them Saturday. But he allowed five runs on seven hits, although striking out four.

Braves 10, Giants 5: In Atlanta, Dion James began a six-run sixth with a single and capped it with a two-run single to defeat San Francisco.

Astros 5, Reds 3: In Cincinnati, Terry Puhl's three-run home run during a five-run fourth helped Houston win a game delayed several minutes in the fourth inning when Darwin threw an inside pitch to Dave Parker and the 6-foot-5-inch (1.95-meter) outfielder charged the mound. Parker threw a punch at Darwin, as the benches emptied, and was ejected from the game. In the fifth, Ron Robinson was ejected for throwing his first pitch at Darwin.

Dodgers 3, Padres 1: In Los Angeles, Benito Santiago hit safely in his 28th straight game to set a major-league record for rookies, but Glenn Hoffman's two-run single in the sixth beat San Diego. Santiago, who singled and scored in the fifth, broke the mark set by James Williams of the 1899 Pittsburgh Pirates.

Expos 7, Phillies 4: In Philadelphia, Hubie Brooks's fourth grand slam in the majors broke a seventh-inning tie and kept Montreal four games behind St. Louis. Pascual Perez, improving to 6-0, allowed two hits and struck out five over six innings.

Blue Jays 10, Tigers 9: In the American League, in Toronto, pinch-hitter Juan Beniquez's bases-loaded triple in the ninth beat Detroit as the Blue Jays scored three runs in their last at-bat for the second straight game.

Jesse Barfield began the rally with a short fly ball that landed in front of diving center fielder Chet Lemon and bounced over his head for a double. Willie Upshaw then got an infield single, reliever Mike Henneman hit Rick Leach to load the bases and Beniquez was sent in to bat for rookie shortstop Manny Lee.

Dickie Noles, the fifth Tiger pitcher, threw three straight balls before running the count full, then Beniquez lined a shot over the glove of shortstop Alan Trammell and the ball rolled between Lemon and left fielder Kirk Gibson to the wall.

Royals 7, Twins 4: In Minneapolis, Danny Tartabull hit a three-run, ninth-inning homer for Kansas City.

Brewers 3, Red Sox 2: In Milwaukee, Mike Felder's homer, in a three-run third, beat Boston as rookie Dave Stapleton pitched 6⅔ innings of two-hit relief. Felder's second homer of the season came off Al Nipper.

Yankees 2, Orioles 0: In Baltimore, Don Mattingly's sixth-inning ground-rule double scored the first run and Dave Winfield homered in the ninth for New York. Pete Filson (1-0) recorded his first victory since Aug. 28, 1985, when he was a member of the Minnesota Twins.

Mariners 2, Rangers 1: In Seattle, Mickey Brantley hit a two-run homer and Mike Moore avoided losing his 20th game, holding Texas to seven hits for 7⅓ innings.

Indians 11, Angels 10: In Cleveland, Brett Butler scored in the 10th when California third baseman Jack Howell bobbled Brook Jacoby's two-out grounder.

White Sox 3, Athletics 2: In Oakland, California, Greg Walker's two-out single in the ninth gave Chicago its victory after Donnie Hill, who began the rally with a one-out walk, scored the tying run when third baseman Carney Lansford dropped Ivan Calderon's high chopper. *(AP, UPI)*

Scott Macdonald/The Associated Press

Blue Jays Lou Thornton, left, Willie Upshaw and Nelson Liriano, celebrating a game-winning triple by Juan Beniquez.

Sifting the Facts of Life and Death

International Herald Tribune

LONDON — Rebecca West, George Bernard Shaw said, wrote as brilliantly as he did but much more savagely (she on the other hand, admired Shaw's style but found his thinking weak). Time magazine called her "The World's Number 1 Woman Writer" in a 1947 cover story and Kenneth Tynan, no mean stylist himself, said of her journalism that her mastery of the long analytical sentence was unrivaled in the history of ephemeral literature. Rebecca West lived from 1892 to 1983 and was a novelist, critic, historian, reporter and Dame of the British Empire. She also lied a lot.

"She spent a lot of the second half of her life revising the first

MARY BLUME

half because she was very aware of herself as a work of art as well as of her art as art. She thought of her life as a bad book and as an artist that drove her mad," says Victoria Glendinning, whose very good book, "Rebecca West: A Life," was published in London by Wiedenfeld & Nicholson and comes out in New York (Knopf) next month.

Biography, like good fiction, Rebecca West once wrote in an exalted vein, "comes down to the study of original sin, of our inherent disposition to choose death when we ought to choose life." By the 1960s she observed, "the number of people reading and writing biographies must exceed the number of people suffering from the common cold."

Herself the possessor of a two-biography ego, she directed that two friends take on the task: Stanley Olson was to write the "full" biography, Victoria Glendinning the shorter one.

Glendinning's 252-page book (Olson's is not yet written) will be a hard act to follow just as for its author it was a hard book to write.

"It's so much easier to write a long book than a short book." She has six boxes of unused material. "You have to know what you are leaving out and why, what you are putting in and why. You've got to justify every sentence you write. At first I thought I would go mad but it got quite exciting. It's concentrated, like a stock cube instead of a soup."

One of the best of the excellent British biographers now at work, Victoria Glendinning specializes in large scale, overpowering, well-connected literary ladies: stately galleons whose progress she briefly and elegantly arrests before setting them back on course. She is a friendly woman with a big laugh and a clever face whose devotion to her demanding and sometimes fearsome subjects has always been tempered by the real-life demands of husband, house, four sons and a dog.

"I could only write really well at night because all through the children's childhood that was the only time I had and I was conditioned that during the day you carried bundles of clothes from one room to the other and helped people off with their Wellingtons. I do the equivalent of that still in the day — I find it really hard to work in the morning, it seems an illicit act."

She married her Spanish tutor, Oliver Glendinning, during her second year at Oxford (she is now married to the Irish writer Terence de Vere White) and had her sons quickly and easily. "I couldn't go on having children, after four it's not necessary, a bit peculiar, although I didn't know what to do next, really." She did some writing, became a psychiatric social worker and was an editorial assistant at the Times Literary Supplement when George Weidenfeld asked her if she would like to write a book.

"It was like being thrown a ball and I knew if I dropped it now I'd never be asked again; I said I'd like to write about Elizabeth Bowen."

In 10 years she has written four major biographies, beginning with Elizabeth Bowen in 1977. Edith Sitwell and V. Sackville-West followed in 1981 and 1983, and now with Rebecca West launched she is very privately trying her hand at fiction. "I've done something different with each book and I've learned something new with each book and the Rebecca book taught me more than anything else. I think I've taken it as far as I can, I'd have to explode it into something different and maybe that's not for me to do."

Hugo Glendinning

Biographer Glendinning: scrupulous and affectionate.

Her biographies are scrupulous, affectionate, detached and very funny when she find the quavers and cracks behind the facade. She gives her subjects the attention they feel they deserve but not always for the reasons they think they deserve it. The publisher commissions her biographies and possibly her one mistake was to say yes to Edith Sitwell, who turned out to be a strangely ghostly subject.

"She was a major public figure because of her strange appearance and her public readings and her pronouncements and her outrageousness, and yet she was a person to whom in her private life nothing happened at all. She hardly left the secret garden of her childhood. You know she wrote about Sleeping Beauty and her version is the only one I've read in which no Prince Charming comes to kiss her alive. She's left sleeping forever. That's pure Edith."

An honest biographer, Victoria Glendinning says, should give the subject's private life exactly the same proportion he or she feels it has to that person. "In some people their private life is not the most important thing. It's their own private life and in their own heads it's a small piece of luggage."

She thinks biography as voyeurism is dying out. "It had to come because biography had been so buttoned up, but now I think no one cares who did what or to whom in bed quite so much."

Rebecca West thought that outsized subjects, she being one herself, were the only fit matter for biography. Victoria Glendinning's first book, "A Suppressed Cry" (1969), was about an unknown woman, her great-aunt Winnie who went up to recently opened Newnham College, Oxford, bright with enthusiasm and ambition. She suffered from asthma and her family made her come home, where she stopped eating and died. "She was stifled by family love, she couldn't get out and breathe."

Lost lives, the lives of the unknown are, she thinks, well worth retrieving, but her own pleasure is to go behind the facade of a successfully achieved person. "I do enjoy the rich canvas. I like to tell a story and I do feel more like a storyteller than a scholar."

She isn't so much a pricker of balloons as a student of what keeps them up, although she wonders if betrayal is not inevitable. "Oscar Wilde said Judas is always the biographer. I take these people who have their public image and sort of unpick their knitting and show the sore places under the silk. Maybe I am Judas and maybe what I do, which is supposed to be so wonderful and oh so sensitive, maybe it's really Judas and why can't I leave them cottoned up."

The demand for biographies is unquenchable. "A lot of people tell me that as they get older they can't read novels anymore and I think that's got something to do with death. Every biography ends in death. Every life ends in death. I think people think how is it going to be for me, how was it for them? The facts of life are the facts of death and its the whole thing written in a book whereas in our lives we can't see an end. It's frightening and comforting as the same time."

The deaths of her subjects have always come hard. The worst — surprising because at times Glendinning clearly gets fed up with her unremittingly tempestuous subject and her increasingly maidenly husband — was the death of Vita Sackville-West. "I just did not want to write down that she had died. If you look at the last page of that book, I keep having little sections about something else. I couldn't bear to write it. You feel when you write the word she died that you've killed them again. Because until that time you've resuscitated them, they're walking abound for you, you've brought them back.

"I think if I ever did a biography again, learning and learning, I wouldn't let them die. I'd walk out on them when they were not noticing, when they were doing the washing up, and I wouldn't let them die. They'd stay alive in the book. That would be quite good, wouldn't it?"

LANGUAGE

Words With a Certain Familiar Ring

By William Safire

WASHINGTON — "Say it ain't so, Joe," moaned the dismayed supporters of Senator Joseph R. Biden Jr., the former Democratic presidential hopeful, in tones echoic of the fans of baseball's Shoeless Joe Jackson when it was discovered that their idol had faithlessly sold out to the gamblers in the 1919 World Series.

The cause of the Biden followers' dismay was borrowing at length and without attribution the rhythms, thought patterns and sometimes the words of another orator.

"Why is it that Joe Biden is the first in his family ever to go to a university?" asked the candidate in a rousing finale to a debate at the Iowa State Fair. "Is it because our fathers and mothers were not bright? . . . Is it because they didn't work hard, my ancestors who worked in the coal mines of northeast Pennsylvania and would come up after 12 hours and play football for four hours?" These rhetorical questions were answered with a ringing "*It's because they didn't have a* platform upon which to stand."

That was a killer-diller of a peroration, warming egalitarian hearts, until Maureen Dowd, a reporter for The New York Times, printed excerpts from a speech by Neil Kinnock, leader of Britain's Labor Party, made several months before: "Why am I the first Kinnock in a thousand generations to be able to get to university? . . . Was it because all our predecessors were thick? Was it because they were weak? Those people who could work eight hours underground and then come up and play football? Weak? . . . It was because there was no platform upon which they could stand."

As an old hand at the speechwriting dodge, my first reaction was to wince at the formalistic *upon which* construction. Although it enabled the speaker to conclude with the strong word *stand*, the ostentatiously careful grammar conflicts with the common-man point; a more forceful conclusion would be "no platform to stand on," with spoken emphasis on *stand*.

Maybe my familiarity with rhetorical borrowing has left me insensitive to the shock of recognition. I remember listening to John F. Kennedy's inaugural, with its stirring line "In your hands, my fellow citizens, more than mine, will rest the final success or failure of our course." I had to admire the way the writer Ted Sorensen evoked the rhythm of the line in the Lincoln first inaugural: "In your hands, my dissatisfied fellow-countrymen, and not in mine, is the momentous issue of civil war." (Kennedy subtly corrected Lincoln's redundancy of *fellow-countrymen*.)

What's wrong with such evocation? Winston Churchill, writing his ringing 1940 speech about defending his island by fighting on the beaches, in the streets, etc., recalled Georges Clemenceau's defiance in 1918: "I shall fight in front of Paris, within Paris, behind Paris." (Clemenceau, in turn, was paraphrasing Marshal Ferdinand Foch on Amiens.)

That sort of boosting — a less pejorative term than *lifting* and certainly far from *plagiarizing*, rooted in the Latin for "kidnapping" — is done all the time.

TIME for confession.

I always admired Franklin D. Roosevelt's use of the repeated *I see* construction, begun in his 1937 "I see one-third of a nation ill-housed, ill-clad, ill-nourished." Working with the writers Samuel I. Rosenman and Robert E. Sherwood in 1940, FDR collaborated on a speech that used *I see* to frame an inspiring vision: "I see an America where factory workers are not discarded after they reach their prime. . . . I see an America whose rivers and valleys and lakes . . . are protected as the rightful heritage of all the people. . . . I see an America devoted to our freedom."

Working as a speechwriter for Richard Nixon in 1968, I thought: Why not lift it? Adlai Stevenson had already adapted the pattern to a series of paragraphs that began with *I look forward to*, which President Kennedy had lifted in 1963: "I look forward to a great future for America, a future in which our country will match its military strength with our moral restraint. . . . I look forward to an America which will not be afraid of grace and beauty. . . . And I look forward to a world which will be safe not only for democracy and diversity but also for personal distinction." Always a slam-bang format for a peroration.

So Richard Nixon told the Republican convention: "I see a day when Americans are once again proud of their flag. . . . I see a day when the president of the United States is respected and his office is honored because it is worthy of respect and worthy of honor. . . . I see a day when our nation is at peace and the world is at peace and everyone on earth — those who hope, those who aspire, those who crave liberty — will look to America as the shining example of hopes realized and dreams achieved."

After that speech, I felt a little pang of guilt — some spark of conscience had not been totally extinguished in the peroration dodge — and I called Rosenman to fess up to using the *I see* construction he and Sherwood had written for Roosevelt.

"Check Robert Ingersoll about 10 years after the Civil War," he replied. With the help of the Library of Congress, I tracked down the speeches of the orator who coined the sobriquet "The Plumed Knight" in the rousing nominating speech for the candidate James Blaine. There was the source of FDR's *I see's* in an Ingersoll speech in 1876:

"I see our country filled with happy homes. . . . I see a world where thrones have crumbled. . . . I see a world where labor reaps its full reward. . . . I see a world without the beggar's outstretched palm . . . and, as I look, life lengthens, joy deepens, love canopies the earth; and over all, in the great dome, shines the eternal star of human hope."

That is the sort of ending to a speech that Demosthenes would have considered a grabber. I never credited Sam Rosenman, and Rosenman never credited the guy who wrote it for Ingersoll; why should the Biden speechwriter give a public pat on the back to the hack who pounds away for Kinnock?

The answer is that times have changed; you can't get away with borrowing anything these days — not even an oratorical technique, much less a phrase or paragraph — unless you are willing to give the attribution. So my advice to candidates like Joe Biden is this: Do justly, love perorations and walk humbly with thy speechwriter. (I forget where I got that, but it has a nice ring to it.)

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